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From the Desk of David. H. Farmer, PE, AICP

THE IMPORTANCE OF DUE DILIGENCE IN REAL ESTATE

Dear Friends,

Welcome to my second quarter newsletter. I hope that you will find this issue informative and helpful. Please feel free to pass this on to friends and colleagues you feel it may benefit. As always visit my website www.keystonellc.net to see what I have been up to.

Until next time

Dave

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In the last issue, we discussed how many business owners become real estate investors by necessity. In this issue, I'd like to touch upon the importance of the Due Diligence process. A quality investment begins with Due Diligence.

The first step that I recommend during the Due Diligence period is obtaining a current survey of the subject property.

Questions that may be addressed during this period may include roadway/traffic studies, water and sewer capacity verification, and environmental studies. Any question that a potential buyer can ask is worth the time to find the answer before the property is purchased. During my engineering education, I asked a lot of questions that most other students didn't want to ask the professors out of fear of appearing ignorant or revealing that they were not paying attention. Don't be afraid to ask questions until you are comfortable with the depth of the answers. The buyer should find an advisor or group of investors with a track record of successful real estate investments to help them determine what questions should be asked and what studies should be commissioned prior to the expiration date of the Due Diligence period. While the advice that you receive may not be free, the benefit of under-

standing your exposure to future problems is well worth the expense.

In this case, an ounce of prevention is TRULY worth a pound of cure.

Here is a sample of the items that I review or ask for when I am hired to carry out the Due Diligence process for a particular property:

- Survey
- Topography Map
- Location Map
- Aerial Photos
- Frontage Photos
- Floodplain Maps
- USGS Quadra Angle Maps
- Utility Location Information (Water and sewer Service)
- Site Plans
- Current Zoning
- Current Future Land Use
- Historical Significance Soils
- Concurrency Issues (schools, water, sewer, roads)

Modern development requires many permits before buildings are erected and parking lots paved. It is a good idea to plan for 18 months to 36 months for permitting time. The fact that

these permits take time and money to obtain, greatly increases the value of the land. An important note is that permits generally "run with the land" meaning they do not belong to an individual, but the land itself. No state or federal permit is transferable from parcel to parcel.

The real key to making money in real estate is to know more about the market than the person selling the land to you.

Another cliché in real estate is that you make money buying property, not selling it. One could purchase land anywhere at any price and *hope* that it goes up in value. Sometimes a trend can be spotted in the market where a particular area is appreciating more rapidly than other areas. Other times a market shift can be found. In this case, property values are rising in a wave similar to an incoming tide.

Investing upon an unexpected wave of appreciation can, however, be harmful to your financial health if the tide does not reach your investment property.

NOTHING beats good research

To contact
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HEY DAVE, WHERE HAVE YOU BEEN?

In February I took a trip to the U.S. Virgin Islands where growth remains steady and price appreciation appear to be predictable. We are currently analyzing several opportunities in the USVI that may merit investment-stay tune for information on these. Soon I will be leaving on a trip to the extreme Northeast where I will

be prospecting for investment properties in the Greater New England Area. Currently for Keystone, other areas of great interest are The Carolina's, Montana and Colorado.





David H. Farmer, PE, AICP
Licensed Real Estate Broker

The Importance of Due Diligence In Real Estate

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Here is a sample of the items that I review or ask for when hired to carry out the Due Diligence process for a given property:

- Survey
- Topography Map
- Location Map
- Aerial photos
- Frontage Photos
- Floodplain Maps
- United States Geologic Survey Quadra Angle Maps
- Utility Location Information (water and sewer service)
- Site Plans (existing or proposed)
- Current Zoning with descriptions of allowable uses
- Current Future Land Use (as shown in the comprehensive plan)
- Historical Significance Soils
- Concurrency Issues (roads,

water, sewer, schools)
-this article is continued on
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About Keystone Companies, LLC

The development industry in Florida is one of the fastest growing sectors of the economy. Keystone Companies intends to capitalize on the success of this industry by taking advantage of investment opportunities in Southwest Florida as an entitlement management company.

Key properties are located in areas suitable for intense future development with minimal environmental issues.

Key "end user" development companies cannot buy land that is not immediately ready for development. Keystone

provides a much-needed service to these developers by learning about their needs and delivering suitably entitled property that meets these needs. While many development companies entitle property, they do so for their own use and not for sale to their competition.

Independent investment groups also entitle property, but most do not have direct development experience and the entitlements that they obtain are often flawed. Keystone Companies focuses on five major issues when

entitling property: Environmental limitations, maximum density, project access, utility availability and site location. By specializing in entitlements for end users, Keystone Companies is well positioned to benefit investors from its extensive experience by minimizing delays from acquisition through final sale

MARKET UPDATE

February was a busy month for conferences here in Southwest Florida. I found myself in the audience at two of the most widely known conferences: Market Watch and the Urban Land Institute's Southwest Florida Winter Institute.

These two conferences brought in highly decorated market experts to give their opinions on where the market is headed over the next twelve months. I used these conferences to gather information from varying perspectives to better prepare myself and my clients for what is to come.

Market watch showcased the perspective of Denny Grimes and Frank D' Alessandro who offered a grim outlook for residential real estate for the immediate future overall, however a few bright spots stuck out in my mind. Commercial real estate still looks good, and there are some good deals that have happened in the past few months, you just need to know where to look for them. Opportunities still exist with existing buildings located in older "forgotten" areas. Some areas are overbuilt and retail and industrial appear to be equilibrium.

South Florida like other parts of the country, is experiencing an excessive supply of homes

Purchased by investors. This issue will take time to resolve, as end users are being found quickly, ONLY for homes that are priced correctly.

This is still a buyers market at the right price. The sellers who are priced right are selling, those who are not, may need to consider setting a lower price bar. For now, too many sellers are remembering what they "could have" sold their home or investment property for in 2005. Unfortunately, this is now 2007 and a much different market.

On February 22, 2007 I attended the ULI Tenth Annual Winter Institute at the Naples Hilton where I had the opportunity to see presentations from Greg Miller, Chief Economist of Suntrust Banks, Dr. Henry Fishkind of Fishkind & Associates and Anthony Flint of the Lincoln Institute of Land Policy. Fishkind and Miller shared with the audience their economic forecasts for 2007 while Anthony Flint shared with us the data behind the housing term "smaller is better."

Dr. Fishkind answered the question "is there a housing bubble?" with a firm "yes" and told us to look for it to deflate sometime in 2007. He indicated that the land market is particularly risky, that strong consumption and weak dollars continue to prop the economy

and told us of the importance of the "60 mile rule" which indicates that hot growth areas will likely be within 60 miles of a coast or an airport. I have personally used this formula for years. Only seeking properties that are convenient to me getting a loaf of bread, a cup of coffee, a gallon of gas and in close proximity to a school for my son.

Greg Miller indicated that the slowdown phase isn't over, the 4th quarter boost is not sustainable, inventory sits and cap spending sags, Soft landing is still the smart money call, but risks are still significant. Miller also indicated that though this will not be the worst housing collapse in history, it will be among the top three. The housing boom between 2003 and the 2nd quarter of 2006 accounted for 16% of the growth in gross domestic product during that period. Over the last 4 quarters housings decline has reduced by 23% the rate of GDP growth. Though the slump does not yet have an end in sight. Miller did leave us with some positives.

Stocks are up strongly and the price of oil is down.

There is an increase in employment and a gain in personal incomes.

Favorite Websites

www.uli.org
www.swflorida.uli.org
www.loopnet.com
www.terraserver.com
www.googleearth.com
www.planetizen.com

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