Equity Pacesetter, LLC

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Overview

Now more than ever, the Equity Pacesetter Fund continues to represent an outstanding opportunity to participate in the foreclosure real estate market. The Fund's strategy of buying foreclosed single-family homes at competitive auction with the intent of quick re-sale at a profit is proving to be an excellent and secure way for investors to diversify their holdings, achieve a high level of current income, as well as offer the prospect for significant and achievable long term capital gains over the fund's three-year life.

Presented below is our analysis of the current housing market in the Phoenix area. This analysis supports our contention that Equity Pacesetter provides a low-risk, debt-free means for you to take advantage of the value opportunities this once or twice in a lifetime market situation represents.

Housing Market Near Bottom

Residential housing appears near or at bottom and will probably adjust slightly early next year as more foreclosures hit the market and must be absorbed. We are already at rock bottom pricing so it shouldn't go much lower. This means another year of tremendous housing affordability and ability to find incredible value for housing and investment.

Phoenix remains one of the fastest growing cities in the entire United States. Phoenix (and the greater metropolitan area) is being impacted by bank owned (foreclosed/REO) properties continuing to hit the market in big numbers. As a result, several unique conditions currently exist. The selection of available homes for sale in Phoenix is good, but significantly less than just a few months ago. Regardless of the price point, 10-20% of the bank owned (foreclosed/REO) properties are in terrific locations, have quality upgrades including private pools, and are in move-in condition.

Prices in Phoenix have fallen to the point where many nearly new homes are actually priced below current comps/appraisals. Some areas have seen prices correct downward by as much as 50% or more, but purchase prices have seen a slight increase over the past few months. Home prices are extremely attractive and affordable in virtually every area of Phoenix, including gated communities, and are arguably at or near rock-bottom levels.

Historically Low Mortgage Rates

In spite of the sub-prime lending crash that started in 2006, and the national banking/liquidity crisis that surfaced in 2007-2008, mortgage loans in Phoenix are still readily available. Credit requirements are more stringent than they were in recent years, but solid loan products and pre-approvals are accessible. Several loan products have made a roaring come-back, including FHA loans up to $346,250 requiring only a 3.5% down payment, and VA loans requiring no down payment.

Mortgage interest rates continue to hover at historically low levels. Like most everything on this planet, the reasons for such super-low mortgage interest rates are numerous and complex. The obvious benefit is that many buyers are indeed able to finance their home purchases. And given the tremendous choice of homes and almost unbelievable pricing, bargains, deals and steals in Phoenix are happening daily.

The result of the foregoing conditions: abundant supply of homes, extraordinarily low prices, availability of mortgage financing and low interest rates is a noticeable, steady increase in buying activity in Phoenix. Properties that are priced aggressively and in above-average condition (bank owned or not) are often drawing multiple offers and selling in just a few days.

Affordability has tripled since the boom times in Arizona of several years ago. In 2006, 27.4% of people in Phoenix could afford the median price home. In 2010 80.8% of people could afford the median price home. Compare that to Los Angeles where only 33% of people can afford the median priced home. Balance between supply and demand will not be achieved most likely until 2014. New construction, however, will get progressively better between now and then. Short term considerations: housing is very affordable again, single family permitting is improving, employment and population has probably bottomed, and consumer spending will be up a little.

Vacancy rates for the Phoenix Real Estate market for single-family homes are at 4% down from 11% in 2007. Apartment vacancy rates are at 11.6%, down from 15.8% in 2009. Tenants now are leasing longer than a year, have fewer delinquencies, and are taking better care of the properties.

Arizona's Economy

Arizona's economy is expected to perform better in 2011 than just about every other state in the West, according to forecasts from the Western Blue Chip Economic Forecast and Arizona State University's W.P. Carey School of Business. The growth will be about "half speed" of what Arizona normally gets in a strong economy, says ASU economist Lee McPheters, who is editor of Arizona Blue Chip Economic Forecast and the Western Blue Chip Economic Forecast newsletters. Nevertheless, it's encouraging to outperform other states, as well as the national averages, when it comes to job, housing construction and population growth.

Arizona's employment picture has been gaining strength in recent months. In September, the state had the second-largest number of new jobs in the West, with a gain of 11,700. Texas came in first. In 2011, both of those states are projected to see the greatest percentage gains in jobs. One interesting trend here is many companies from California have moved their headquarters to Arizona due to the flailing California economy and high taxes to the more business-friendly and affordable climate of Arizona. Arizona is only a relatively short truck drive to CA, so that makes sense!

As we move forward, 2012 is expected to be better than 2011 and so forth. Phoenix has historically suffered from emphatic boom-bust cycles and we are poised for another growth cycle. All the indicators point towards to future population and employment growth as we move forward which will support our housing market.

What's driving the Single family homes and condos as investments is the number of homeowners losing their homes in short sale and foreclosure and in need of rental housing until they can repair their credit. The best residential housing markets for investments are where the newer subdivisions were built from 2003-2007 on the fringes of the Valley.

As it stands with any type of investment, if you hang around and wait for the indicators to show a turnaround, you are already late. You have to be able to anticipate what's happening with the leading indicators and jump in before everyone else. It's really not that risky if you make sure to stick to buying properties that have positive cash flow.

After monthly inventory increases in Aug and Sept, the market showed signs or restabilizing in Oct and leveled off and improved slightly in November (speaking about overall inventory levels). Prices have softened a bit further in the third and fourth quarter of this year, but not significantly. January is expected to show slow improvement beginning when everyone gets back into the swing of things.

The bottom line is there has never been a better time to selectively buy residential housing in Metro Phoenix. Astounding affordability and positive cash flow on single family homes in a major US metro market makes now the time to get involved and snap up properties to reap the benefits over the next 5-10 years.

To most investors who are reading this, you may be surprised that the US residential housing markets are in not only recovery, but for the past several months have seen very strong evidence of increased sales velocities, reduced inventories, increased real prices and increased housing starts in most gateway cities. Real Estate has just begun its initial road to stability and recovery in 2010.

Seen over the past 37 months significant declines in valuations in the physical real property markets, with increased CMBS defaults, foreclosures, short sales and challenging macro economic conditions, increasingly distressed real estate and lack of financing, why is this space now experiencing improving valuations? It goes back to the basic facts of valuations and affordability. Housing has fallen in value to a compelling point where owning a home is almost less than renting a home. The drop in values has created the best affordability in 25 years. In fact, the Financial Times stated that the US housing markets currently have the best relationship between house prices and incomes of any mature economy. The famous Case-Shiller index is now reflecting this change in home price direction, which normally remains in a consistent direction for 30+ months, as it has done over the last three major cycles.

Everything seems aligned to making housing a solid investment option. We strongly believe this is a simple investment, but sometimes simple is best. We are making money right now buying foreclosures and then quickly refurbishing these homes for resale, or rent, which is a very simple yet profitable business. We are buying at discounts that also allow us to enter the real property space at greatly risk-adjusted valuations.

These opportunities primarily exist due to the financial institutions and the failed banks selling off their assets and allowing investors to buy at a substantial discount so these lenders don't have to deal with the repairs and marketing of the homes. Typically, the assets are sold for 75% of the market value allowing investors to not only buy at risk-adjusted values, but to have the opportunity to resell these assets quickly without the need for a significant economic event in order to profit from the sale of the asset.

Many so called experts would have you focus on unemployment, the increasing sovereign debt, the high levels of consumer household debt, and any of 30 other reasons why you should keep your money parked. In the meantime homes sales are rising to the highest level in three years.

While we believe that foreclosures and short sales will continue for another two years, keeping the housing markets and commercial property constrained there are concrete positive signs that strongly suggest an overall improving real property market that began in late 2009. The markets understand this and capital is coming into this space which will accelerate this positive trend. We predict that 2010-2011 will be the best time to buy real property assets in the US.

Existing homes today are selling in most cases for half of the cost of what they would cost to build. Homebuilders have struggled with clear, inexpensive competition from foreclosures and short sales, yet recent activity strongly suggests that the public homebuilders are seeing past this liquidation mode and have been buying up land and improved lots, believing that valuations will once again allow for future homebuilding. The public homebuilders understand the trends and can forecast renewed demand and housing shortages in the post-2012 period.

Many respected veterans in the homebuilding and financial industries are also beating the drum now for the logic of investing in this space. Wilbur Ross, Warren Buffet, Ben Bernanke, James Dimon, Sam Zell, Leon Black, John Paulson, Thomas Barrack, Brian Moynihan, Bob Toll, Richard Ziman, Tim Geitner and William Lyon have, in the last six months, come out publically and suggested that housing is now an opportunity, rather than a liability.

EPS - 2011

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Sleepy Housing Market to Awaken in 2011

The housing market will remain in hibernation this winter and, without the benefit of a federal home buying tax credit, keep snoring right on through the spring, according to two recent studies. However, by the third quarter of 2011, pent up demand could stir the market from its slumber and generate a modest, groggy recovery.

Tight credit and appraisals coming in below a negotiated price continue to constrain the market. Nonetheless, there appears to be a pent-up demand that eventually will be unleashed as banks resolve their issues with foreclosures and the labor market improves. Likewise, the recent "Fiserv Case-Shiller Home Price Insight" reported that the home buyer tax credit delayed the housing market's slide to the bottom, and that will put off the recovery until late 2011.

Fiserv and Moody's Economy.com expect that home prices will drop over the next four quarters in nearly all metro markets, before prices have a shot at stabilizing by the end of 2011. Next year, we expect smaller sales declines of about 7 percent during the first two quarters, before sales begin to rebound with a near 26 percent year-over-year increase in sales, according to our forecast. We've added 30 million people to the U.S. population over the past 10 years, but sales are where they were in 2000, so there appears to be a sizable pent-up demand that could come to the (housing) market once the economy gathers momentum.

Existing home sales could rise from 4.8 million this year to 5.1 million next year while housing starts are expected to rise to 716,000 in 2011 from 598,000 this year. Housing starts bottomed out at 554,000 in 2009. The boost in sales and starts is related to favorable growth in the Gross Domestic Product. It should grow 2.0 to 2.5 percent over the next two years. A projected and much needed 1.5 million additional jobs over the next two years will push the unemployment rate down to 8 percent by 2013, but it won't return to a normal level of about 6 percent until 2015.

Mortgage interest rates are at record lows now, but with the housing market recovery under way, they are rising, creating an average 4.9 percent next year, and 5.8 percent in 2012. Median prices for existing homes, nationwide at $177,100 in the third quarter this year (down 0.6 percent a year ago) are expected to continue to decline to $165,900 into the first quarter 2010, before managing $178,900 by the third quarter next year, an expected peak for the year. New home prices, $218,000 in the third quarter, 2010 (up 2.5 percent from a year ago), are expected to continue rising each quarter in 2011 and peak out at $224,300 in the fourth quarter.

There are no clearer signals than those you are currently reading. We firmly believe that this is a simple proposition; invest in a risk-adjusted asset, at half of what it cost to produce which also just happens to be the best performing asset class for 2011. EPS and its managers have focused exclusively on this space for several decades and we see this as the ideal time to invest in real property. We strongly contend that the recovery has begun and that capital put to work in this sector will be rewarded beyond the conventional returns of most investments.