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| <p>SiRuDo Realty, LLC 3025 Bull Street Suite 229 Savannah, GA 31405 912-232 8686 www.sirudorealty.com</p> |  The logo for SiRuDo Realty, LLC features the company name in a stylized, 3D font within a circular frame. Below the circle, the text "SiRuDoRealty, LLC" is written in a bold, sans-serif font, with "SiRuDo" in red and "Realty, LLC" in blue. | <p>Quarterly Newsletter March 2014</p> |
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Welcome

Dear Readers,

It is hard to believe that spring is just around the corner while it seems we just ended celebrating the New Year.

Time just doesn't stand still and neither does Savannah if we look at all the projects that are ongoing or starting lately.

New and fast-rising residential developments on West Victory Drive, upscale dining facility included, an expected change of scenery in the vicinity and towards the Starland District (40th Street and Bull Street), fully occupied town homes at The Avenues on 61st Street and that is not even mentioning new hotels Downtown.

Did we also mention a new residential/commercial development on 33rd Street and Habersham?

The rental markets are thriving indeed and more units are being added each and every day that one has to wonder whether the market can absorb new units at such a fast pace and whether we are not reaching a saturation point.

Read more about this in this Newsletter as we try to dissect the numbers and predict the future in conjunction with possible trend changes in the real estate market.

Creative Rental Living

Creative, Nostalgic and Historic Living

Rental Market: Saturation or Sustainable Expansion

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Creative Rental Living

The word “Creative Living” has become the new slogan of property management companies primarily targeting students, but how creative is it really and more importantly, who is it creative for?

The term was first used in early 2013 when The Avenues on 61st Street became available for rent.

Originally zoned, approved and constructed as single-family townhouses, few families were willing to pay \$2,000.00 per month to live in a 4-bedroom house with a 2-car garage and fewer were even interested in rental property without backyard or patio living.

The owners and property manager soon launched a “Creative Living” campaign to attract students, offering the 4-bedroom townhouses for rent by room with joint living spaces and shared parking garages.

The creativity can be applauded from a business perspective if it were not that multiple Lease Agreements within a designated single-family townhouse is considered a dormitory or rooming house according to City Ordinance, and therefore subject to City income taxes.

There are of course creative ways around this and soon enough the property manager, now on site as per the City Manager’s directive, started offering Lease Agreements with half-occupation at half monthly rent.

The remaining space(s) to be marketed by the occupants as well as the property manager with the future occupants to be added to the Lease Agreement at which time the full rental amount would be due.

Let’s call it “Living Creatively in Creative Living”, and it works except for the parking spaces of course, hence a parking variance request is pending approval.

Late 2013, the developers of One West Victory or OWV used this same model but instead of building townhouses, they opted to build 114 luxury condominiums under the umbrella of “Creative Student Living”.

Given the location, the developers solved their future parking problems by building a four-story parking garage on the corner lot.

The leasing model is the same as The Avenues with a choice between 2, 3 or 4 bedroom condominiums with access to art studios, gallery space and upscale dining (to be completed early mid 2014).

This is actually very creative living for students and can be viewed as a modern-day alternative to a dormitory.

The idea offers more independence, more modern and avant-garde living and can be even more attractive financially, at least for some.

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The question is whether this is the beginning of a new trend in student-living and whether this will affect the existing rental market that has always catered to students, at least partially or at least some segments of the market.

We will try to address some of the issues based on location, accommodations, service offerings and diversity of the rental market as a whole.

Creative, Nostalgic and Historic Living

(A personal opinion and point of view)

Now that we understand the creative approach to students, which in my opinion is far less creative than developers may think, let's look at what the Savannah rental market has to offer as a whole and where the competition may or may not influence the market.

The Savannah rental market has always been very diversified in its offerings, from location to size, to nostalgia and historic accommodations, so the new creative trend is just another "niche" option available to those who seek such living conditions.

Personally, I compare creative with minimalist living that only appeals to a small market segment and will certainly not become the mainstream.

A similar approach has been used by Drayton Towers, and successfully, but that was primarily based on location rather than cold interior design.

The largest and most attractive segment remains what I refer to as "nostalgic and historic living"; meaning integrated residential living with hardwood floors, high ceilings, fireplaces, grandmother kitchens etc. and preferably some sort of outdoor living space.

That brings me to service offerings, efficiency and of course appliances.

While many students are attracted to the nostalgic appeal of hardwood floors and high ceilings, they also look for efficient and upgraded bathrooms and kitchens that reflect a 21st century living in a 20th century preserved environment.

Where once a simple W/D connection was a plus, today the W/D is expected to be state-of-the-art. A kitchen is expected to have modern appliances, practical countertops and workable space and storage. Future residents tend to expect a full-size microwave as a standard kitchen appliance but most apartments lack the offering.

Antique and retro bathrooms with stand-alone claw tubs are "in" but should not be confused with the 60s bathtub mastodons surrounded by pink or lime green tiles with matching mosaic floor patterns.

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If the latter is the case, you may want to consider giving the kitchen and bathrooms a makeover when you have the chance. If that is financially not in your future, then consider resurfacing the tub, walls and floor, and change out the vanity and “medicine” cabinet.

Consider resurfacing your kitchen counters and give your kitchen cabinets a more modern look.

Industrial tiled floors, the most popular floor of the 1960s and unfortunately also the most durable one, can be given a modern and new look by sanding and re-coating the surface at a small cost.

A nostalgic apartment with history can be a gem in the rental market if and when equipped with modern-day appliances, kitchens and bathrooms.

These gems, when located near a student campus or within biking/walking distance of a small retail hub, exemplify “creative living” for me and it beats living creatively in a new building that looks like a dormitory.

Ask the student or the young professional! You will be surprised to hear how many times they ask whether the apartment has hardwood floors and a fireplace in it.

My 21st century answer is always accommodating: it has hardwood floors and as for the fireplace, well there is an app for that if you have a big screen TV.

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The Rental Market: Saturation or Sustainable Expansion

Downtown and Midtown Savannah boasts a large amount of rental units that has been increased as a result of a collapsing single-family home real estate market.

Some of those have left and keep leaving the rental market, returning to their original owner-occupied status, but the numbers are small and therefore negligible for our purpose.

The addition of newly constructed rental units begs the question whether we are reaching a saturation point or whether the growth is sustainable from a long-term perspective.

The Avenues on 61st Street now houses 132 residents and One West Victory will have room for 700 more.

That is a lot of capacity to absorb in a short time period but shouldn't be a major concern given the continuous growth in our overall student population, at least not for every property owner.

When the Avenues opened last year, we felt a dip in demand for existing rental properties that can be explained with attractive marketing strategies and of course the attraction of new construction versus "older" buildings.

However, the dip was short-lived and all returned normal after the first month.

That is a clear sign that the Savannah rental market can indeed absorb the initial shock of extra available units without much disruption.

We expect the same to happen when One West Victory opens its Leasing Office, although it may take more than one month to absorb 700 new units.

Nevertheless, regular market demand will stabilize again after the initial 3-month absorption period.

Where saturation may become an issue going forward is the location and specifically Downtown.

We have witnessed a slow trend of students (primarily) moving away from high-priced Downtown studios/apartments in favor of a more central location that offers more space for a lesser price.

The developers who seem to favor a Midtown location for expansion of their rental properties rather than anywhere else accentuate this ongoing trend.

Two new rental developments have been approved and both are located in Midtown.

The first will be on the corner of Bull Street and Park, while the second one will take up an entire block on Habersham Street and 34th Street.

Completion of both is expected late 2014 or early 2015 but no unit size is available at this time.

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In essence, the market can absorb the extra capacity and will continue to do so for the foreseeable future but competition for location and quality of accommodations will continue to rise.

The quality/price factor will become more important and off-street parking is always a plus of course, even in Midtown.

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