

## Downtown Orlando Condominiums – Strong Market will Continue to Grow

- Ø First, it is important to put the so-called “condo development craze” in perspective. Specifically, let’s focus on the Downtown Orlando condo market as it seems to attract the most attention and is home to the vast majority of large-scale and high-rise construction projects.
- Ø Various sources report there are 4,500 to 5,300 condo units (new construction and remaining possible conversions) in Downtown Orlando that are under construction, in permitting, planned or being planned....even if all of these units are developed in a timely fashion (which is very unlikely), you are looking at 1,000 to 2,000 new condos per year in the Downtown market over the next few years....this is a very low percentage (less than 5%) of the total housing market in Central Florida.
- Ø There are over 50,000 residential sales transactions a year in Central Florida. Even at 2,000 condo units a year, that would only be 4% of the market. For some reason, condos attract a lot of attention, but they are a small factor in the overall market. The more appropriate analysis would be to look at all the suburban “cookie cutter” housing that the tract builders are doing. The suburbs are really where the market is likely to get overbuilt and soften.
- Ø You can also look at new housing starts....based on actual building permit activity, there are over 30,000 new housing starts in Central Florida each year, so just looking at new construction, condos are only about 7% of the total market.
- Ø By all measures, including price appreciation and sell out period, all new condo projects that have been completed in the last few years have performed exceptionally well. New construction condos like Thornton Park Central, Eola South, Osceola Brownstones and The Sanctuary have sold quickly far exceeding lender’s underwriting criteria and the supposedly well-researched conclusions of market studies. Moreover, conversion projects like The Waverly, The Metropolitan at Lake Eola, Park North and The Grande have experienced similar success. This type of real and documented sales success simply does not occur unless there is significant pent-up demand.
- Ø Along the same lines, all upcoming projects that are “real” (meaning they have actively begun pre-sales and are writing contracts with hard deposits) are selling extremely well. Collectively, the new notable projects of The VUE, Star Tower, 55 West, The Solaire, The Jackson and The Paramount are over 70% under hard contract. This is an amazing figure given that all of the projects are many months from completion and some have not even broken ground. This figure outperforms almost every other major metropolitan area in the United States. And “hard contracts” are very strong financially...they have at least 10% of the purchase price as a non-refundable deposit.
- Ø Population growth in Central Florida is astounding and, first and foremost, this drives the need for housing. Each year, 70,000 adults, or one adult every 7 minutes, move to Central Florida.

- Ø Job growth is also a strong demand driver. Orlando leads the state and is in the top 5 nationally in job growth. Central Florida adds about 25,000 new jobs every year.
- Ø Population....think about where we are now and where we will be. We are the next Atlanta or Houston...very soon. We will be Los Angeles before you know it. Currently, we have just over 3 million people in Central Florida. In 2020, it will be 4.6 million (that's Atlanta or Houston). In 2050, it will be 7.2 million (that is LA). Right now only NYC and LA have that many people and we will be there in our lifetime!
- Ø Based on population growth, we need to add an average of 30,000 housing units a year for the next 20 years in Central Florida just to keep up with demand. If we added 1,000 to 2,000 condos every year, that would only be 3% to 7% of the necessary housing supply.
- Ø There are other housing demand drivers beyond population and job growth....second home buyers/investors, foreign investment and population movement within a market. In a lot of downtown markets in cities with net population loss and no job growth, downtowns are still doing well. It is the suburbs, specifically older "inner ring suburbs", that are suffering. "Income migration" is also a factor. This is where money moves to real estate as an investment class when other areas (like the stock market) are not performing well.
- Ø Over the next 2 to 2.5 years, there is a significant "supply gap" in Downtown Orlando as most of the new projects mentioned above will not be completed and ready for occupancy until late 2007 to mid 2008 (if everything stays on schedule, which is unlikely). So, in the near term, existing units will be in even higher demand and the limited supply of competitive units should lead to continued strong price appreciation. 2008 may see a softening of the market simply due to several large projects coming on line. But, demand drivers like population growth, job creation, significant pre-sales and pent-up demand should make all of these projects extremely successful.
- Ø Price per SF of condos in Downtown Orlando has gone from hovering around \$100 per SF from 1990 to 1994 to over \$300 per SF in 2005. From 1995 to 2005, you essentially had a 200% increase, or a straight line average of 20% over 10 years. Other documented price appreciation in the market is also very strong. Overall median home price is up 29% this year over last year as reported by Board of Realtors. We are not making any claims of future appreciation and the documented price increases over these time periods are obviously indicative of a very good run, but these great results cannot be ignored.
- Ø City condo living is an increasingly popular lifestyle. Quality of life, convenience, low maintenance, avoiding long commutes, the "creative class", demographics ("singles", "mingles" and "jingles") and security are all factors. These lifestyle factors lead to net immigration from the suburbs to the city.

- Ø Overall, the fact is that the boredom and frustration with the “sameness of the suburbs” leads many population segments to prefer city living. For many people, the “American dream” of home ownership is no longer the single-family stucco house on a suburban cul-de-sac.
- Ø Commuting time example...30 minutes average each way in Central Florida and it’s only going to get worse. That is 5 hours a week, 250 hours a year....or over 10 days a year wasted in traffic.
- Ø Census data.....cities are gaining population for the first time since World War II. Almost all major metro areas are seeing gains. This is a nationwide trend and the first time that it has been documented is in the most recent U.S. Census data.
- Ø 60,000 people work in Downtown Orlando...even if you look at downtown and all surrounding neighborhoods (like College Park, Delaney Park, Lake Eola Heights and Colonialtown), only 10,000 to 15,000 people live in or near downtown, and obviously only a fraction of these also work here....the point being, there is a large number of people who work downtown who are tired of commuting, but unless we build more condo projects, they have very few housing options downtown.
- Ø Economic sense.....housing as an economic unit....affordability issue....don’t look at price per SF, look at the overall housing unit. The lifestyle is appropriate for lots of folks and a condo is cheaper than a house.
- Ø Condos as investments....appreciation vs. cash flow....”do the math”. Even at very nominal appreciation rates, like 5% to 10%, condos make great investments. And this is not at all dependent on renting them out at “market rent” to cover carrying costs. In fact, condos are well positioned to be able to rent at below market and still be very attractive to investors. Refer to the spreadsheet and analysis available from CondoHQ.
- Ø There are simply not as many investors as the media or naysayers would have you believe. The amount of re-listings just doesn’t support the idea that there are a significant number of investors looking for quick re-sales. And, most investors are very well informed and financially able to perform. They are buying condos as part of a diversified portfolio and are after the appreciation (not cash flow) return.
- Ø The term “flip” is widely misused. If you buy pre-construction and hold for two or three years while a unit appreciates over the construction period and then you re-sale at completion of the project, this is not a flip. It is a two or three year real estate investment. The idea the market is comprised largely of “flippers” that are all looking for a quick profit is just not true. Sure, they exist, but they are by no means driving the market.
- Ø As compared to comparable cities like Dallas, Austin, Charlotte, Atlanta, Denver and Houston, Downtown Orlando is still very affordable and at the low-end on a price per SF basis.

- Ø Low interest rates are not specific to condos. They are low for the entire real estate market and have benefited single-family homes, vacation properties, commercial investments, etc. In fact, condos do relatively better if rates go up...they tend to be in urban or waterfront locations that are always in high demand and more easily put into the rental market. The locational advantages of condos make them like blue-chip stocks in a down market.
- Ø In housing, supply drives demand, or at least tells it where to go. Don't believe what you learned in economics class. You have to build supply to prove the market. Most people don't know what they want until you show them. On a business level, the Starbucks story is an example of the supply driven model...no market study could prove it and nobody thought they needed it, especially at that price. Baldwin Park has worked the same way. Market studies said 8 to 10 year sell out for 4,000 homes, and they have done it in 2 to 3 years (the only reason that it hasn't been faster is that builders can't keep up)...price appreciation has been huge. Baldwin Park has over 4,000 housing units dropped into the market within a year or two and you hardly hear about it, yet everyone wants to talk about "all the condos downtown".
- Ø My gut says we could support 10,000 to 15,000 condos in Downtown Orlando right now...but I'm having a hard time proving it past what I say in this outline. I think I make a very strong case for the 5,000 or so units that are planned at a pace of 1,000 to 2,000 per year for the next few years, but how do we show support for more? My guess is that Downtown Orlando could capture at least 10% to 20% of new construction buyers every year. That would be 3,000 to 6,000 units annually.