

Orlando, Florida:

More than a Mickey Mouse Market

2014 Investor Guide

In this report my goal is to share with you what I've learned residing in Florida for 3 years and investing in Florida real estate for nearly 6 years. I'll also provide a few real estate case studies so you can get a feel for Florida and the Orlando real estate market on a more granular level.

The State of Florida is located in the Southeastern US and is for the most part a peninsula separating the Gulf of Mexico from the Atlantic Ocean. Because of its location, Florida has unique weather characteristics, making it **the only tropical climate state in the US**. This tropical lifestyle has caused Florida to be popular for vacationers, retirees and those looking to relocate to a warmer climate. Personally, having grown up in the frigid winters of South Dakota, I never get tired of shoveling sunshine!

What do Tiger Woods, Rush Limbaugh, Derek Jeter and most recently Hertz Rent-a-Car have in common?

People often ask me as a resident of Florida, what's the business and fiscal climate like there? Is it as good as the weather? YES. Florida has **no state income tax** and an overall low tax burden. The state is also **very business-friendly**, and is one of the easiest states in which to start a business. Limbaugh, Jeter, and Tiger Woods all left the Northeast and California to escape the high tax climate. Hertz Rent-a-Car also decided to leave New Jersey and move to Florida for lower taxes. Interestingly enough, Hertz was being lured to a number of other states including Oklahoma. The deciding factor for Hertz was that trying to convince hundreds of employees and their families to move from New Jersey to Oklahoma was a non-starter, but Florida? Employees said, "Sign me up!" So quality of life is also a factor for businesses moving to Florida.

Chose One:

☐☒

Florida was also recently ranked as having the leanest state government in the US. With \$37 per resident as the cost to operate the government, Florida handily beats the national average of \$78 per resident to fund government. Wow, that's less than half of the national average! Couple the low tax environment with a relatively low cost of living and excellent weather, and you end up with a state that is **a major contributor to the overall US economy**.

In 2014, Florida will surpass New York to become the third most populous state, behind California and Texas.



At around 20 million people, Florida's population boomed for many years, leveling off during the housing crisis with near zero growth in 2009. However, recovery is well under way, with population growth of 2% (about 400,000 residents) per year. Predictions are for a 2% to 3% growth rate annually for the next 20 years. That's like adding a city the size of Oakland, California EVERY YEAR. That's a lot of demand for real estate.

The growth in population has created a fiscal renaissance, with previous \$5 billion annual budget deficits turning into a \$1 billion surplus in 2014. Florida isn't hoarding the wealth, but rather is planning to reduce taxes even more...by \$500 million. Some of the surplus will also be invested in promoting the state's tourism industry locally and globally. This is like a well-run company paying a dividend to its shareholders and investing a chunk into marketing to keep the rally going.

What's even more interesting is that for the last 12 years, on average, over fifty-thousand people PER YEAR have left New York State for Florida. That's like the entire population of White Plains, New York leaving for Florida EVERY year. In other words, in the last 12 years a population equal to the ENTIRE state of Wyoming left New York for Florida. It's mind boggling.

What I find really amazing is how surprised all of my friends and colleagues from New York were when they found out **Florida is about to overtake New York as the 3rd most populous state**. As a real estate investor, I know when people migrate they buy houses, start shopping for consumer goods, and create a ripple effect on the local economy.

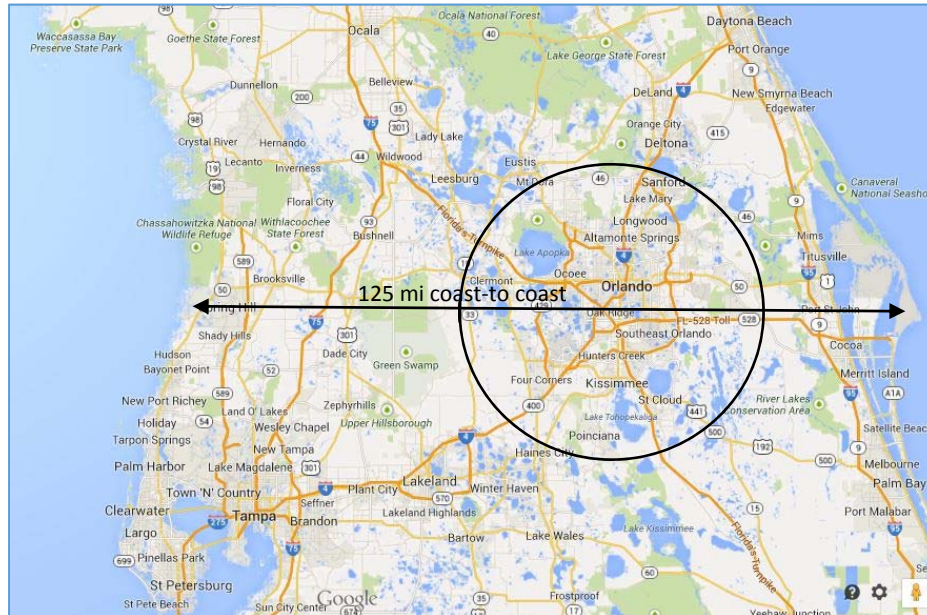
"10,000 people a day are turning 65 in the U.S." – Pew Research

Retirement Heaven

It gets even more interesting. People move to Florida without a job when they retire. So they bring their money, but they don't take up a job. Their **migration actually creates jobs**. In fact, I learned that population growth, not jobs, is the #1 driver of housing demand. A great example of this is The Villages, Florida. While the economy was in a tailspin both in Florida and nationwide, The Villages, Florida (a community outside of Orlando) had population growth of 29% between 2007 and 2012 to nearly 95,000

residents! In 2013 over 3,400 new homes were sold in The Villages, which was 300% more than any other new home community in the U.S.! Florida is the beneficiary of the population migration trend.

Location, Location, Location



Located in Central Florida, Orlando is at the center of the I-4 corridor that stretches from Tampa Bay/St. Petersburg at the west end to Daytona Beach to the east. Orlando enjoys a convenient location 55 miles west of Daytona and 85 miles east of Tampa. The proximity of Orlando, Tampa, Lakeland, and Daytona creates a blending and blurring of community limits, making it easy to travel from one city to another. Of the 7.1 million people in the I-4 corridor, 2.8 million reside in the Greater Orlando Combined Statistical Area. The Tampa Bay area to the west is the residence of the remaining 4.3 million people.

Orlando's Central Florida location is strategic for a number of reasons. One of the most important is that **the central location insulates Orlando to a great extent from hurricanes** and the resulting coastal flooding. Also very attractive are the large parcels of available land around Orlando that have landed major development such as:

- **LEGOLAND**
- **Disney World expansion**
- **Medical City at Lake Nona**

Last but far from least, Orlando's central location within the state is a major strategic advantage for businesses and individuals wanting to have statewide access. Many companies prefer more than just coastal region access, and **Orlando is the only large inland city in Florida.**



Orlando is fast becoming Florida's new economic powerhouse.

Some quick economic highlights:

- **57 million visitors in 2013**, compared to New York City 51 million, and Las Vegas 41 million, making it the most visited city in America
- **\$35 billion in tourism spending** (up 10% from 2012) – Just tourism spend is larger than the entire GDP of Iceland, Jamaica, and the Bahamas combined
- **2.2% population growth in the Orlando metro area** (Population grew more than 50,000 in 2013) - More than entire population of Palm Desert, California
- Emerging tech hub with **2,600 technology companies**
- One of the top 10 cities for **number of patents created annually**

Foreign Attraction

It is estimated that in 2013, over 57 million visitors came to Orlando, making it **the most visited city in the US**. While tourism and visitation are growing, Orlando is just scratching the surface of foreign visitor potential. Of the 57 million visitors in 2013, just 3.8 million were foreign trip originations. Before I moved to Orlando, I didn't realize the impact of foreign visitation on the Orlando economy. When foreign visitors visit Orlando, they are introduced to the city through one of its huge number of attractions. The word spreads and attracts even more visitors, and eventually creates a demand for jobs and careers for those speaking the language of the city's visitors. Walk around Orlando and visit any of the theme parks, restaurants, and shopping areas and you'll hear many different languages and interact with cultures from all over the world. One of the fastest growing languages you'll hear in Orlando is Portuguese.

“35.7% of foreign visitors from Brazil to the U.S. arrive in Orlando”
– U.S. International Trade Administration

Disney World, Universal Studios, and SeaWorld launched a joint marketing campaign in 2009 to start attracting foreign visitors, particularly Brazil. Visa restrictions from Brazil to the US are still very strict but the Federal Government has plans to loosen Visa requirements. The Brazilian visitor market is expected to grow quickly. You may have heard of the BRIC countries (Brazil, Russia, India, and China) described as the emerging (fast growth) economies of the world.

Orlando is aggressively marketing to Brazil. Evidence of this strategy paying off is everywhere with many Brazilian restaurants, shops, and business being targeted for both Brazilian visitors and residents. Brazilians aren't just visiting, they are moving to Orlando, buying 2nd homes as they see the U.S. real estate market, and especially Florida, as “on sale”. And the Brazil-to-Orlando trend is just getting warmed up. Only 1.8 million of Brazil's nearly 200 million population are traveling internationally.



Tourism... and Beyond!

Because Orlando has so many annual visitors, one is hard-pressed to find a person that hasn't been to Orlando or had a close friend or relative who has visited the city's attractions or attended one of its conventions. In addition to visiting Orlando for its theme parks, **the convention business is big business in Orlando**. Globally, Orlando is known as a convention and business destination offering 113,000 hotel and condo accommodations within 45 minutes of the Orange County Convention Center.

“Orlando, America's Favorite Convention Destination” – USA Today, 2013

Orlando could be satisfied with tourism growth, but there's much more to the story.

The New Economic Drivers

While Orlando is still largely known as the undisputed king of tourism, the city is quietly becoming a diversified economy. Medical and life sciences, aerospace, sports, gaming and technology are some of the industries helping broaden the base of Orlando's economy.

Near the Orlando airport is an area called Lake Nona (a.k.a. The Medical City) that has become **the largest medical and life-sciences development in the US**. Lake Nona has seen the following developments in the last 5 years: University of Central Florida College of Medicine, Sanford Burnham Medical Research Institute, Nemours Children's Hospital, UCF Burnett School of Biomedical Science, M.D. Anderson's Cancer Research Institute, New V.A. Hospital (opening 2014), and the University of Florida Research and Academic Center. These developments are components of the larger Lake Nona master plan which will create an additional 20,000 jobs over the next 10 years and provide over \$7 billion in economic impact.



What's unique from an investment perspective is the medical bio-cluster **creates a large new pool of tenants**. Many of these researchers and medical professionals will be living in Orlando for a couple of years and make the decision to lease versus buy. As a landlord, I find this new tenant-type particularly interesting.

Technology has also become a major driver in Orlando. The city has become a hub for digital media and simulation companies, as well as aviation and aerospace software firms. Electronic Arts, a gaming software company, also has a large presence in Orlando. Technology employs 42,000 people in Orlando spread over 2,600 different companies.



These technology developments are garnering community support, and the OrlandoIX 5-day digital festival has been announced for the fall of 2015. It is estimated that 80,000 to 100,000 people will attend conferences and exhibitions in the coming year showcasing Orlando's achievements in interactive media, arts, and

entertainment technology.

The energy around all of the development is contagious and illustrates that the city is growing up and attracting more than just sun-seekers and theme park employees. The diversity of the work force will provide a positive impact on the local economy, and particularly housing. Investors in real estate have the option to look at a variety of neighborhoods, socio-economic groups and price points.

Economy Snapshot Year End 2013

- Unemployment 5.5% (down from peak of 11.9% in January 2010)
Versus U.S. unemployment rate of 6.6%
- Employment at 1.08 million (an all-time high and up 25% from year 2000)
Versus U.S. employment which is still below 2007 levels
- 88,000 new jobs created in Orlando since January 2010
Same as the entire population of Santa Monica, California!

Infrastructure Projects

Orlando is seeing an infrastructure boom with many projects in process and funded. These projects will have a large impact by providing more jobs, easier commutes, and more cultural offerings, making Orlando more attractive to those seeking to relocate to the area. In fact, the City of Orlando along with the major employers such as Disney, Universal Studios and others are beginning a national and international campaign to showcase Orlando's existing and upcoming infrastructure.

Infrastructure such as medical facilities, new transportation modes, sports and entertainment, shopping, and access to other amenities is important to the key demographic groups such as Baby Boomers and those considering leaving higher tax environments.

Snapshot: Infrastructure under way

- **Sun Rail** - New commuter rail system linking the metro area with 17 stations over 31 miles. Set to open in May 2014
- **All Aboard Florida** - \$1.5 billion high-speed rail linking Orlando to Miami, giving the 50 million people that travel to and from the cities another option, and shortening the drive between Miami and Orlando
- **I-4 Ultimate** - \$2 billion makeover of Interstate 4 through Orlando adding 4 express lanes and replacing 56 bridges and overpasses, also fully funded and commencing in 2014-2015
- **Orlando International Airport Expansion** - \$1 billion to build a new people-mover system and transit hub (where Miami-to-Orlando train will terminate) and to set the stage for the new international terminal
- **Creative Village** - 68 acre creative class development in Downtown Orlando which will be home to higher education providers, tech incubators and accelerators, creative companies, and more

- **Central Station** - \$200 million dollar mixed use development on Sun Rail line in Downtown Orlando

Dr. Phillips Performing Arts Center



- **Dr. Phillips Performing Arts Center** - New home for Orlando Symphony, Ballet, and more
- **New Major League Soccer Stadium** - Orlando just secured a MLS expansion team in late 2013!
- **Citrus Bowl** - \$250 million renovation to add luxury suites and more
- **Orlando Magic Entertainment Complex** - \$200 million new facility with shops, restaurants, hotel, and other features
- **Downtown Orlando** - \$1 billion in apartments, condos, hotel and other private development

Higher Education

The future is bright for Orlando's technology and media industries, and there will be a constant future supply of excellent careers. Orlando is working to meet the need with support for higher education locally. In fact, I found it really interesting that just west of Orlando, a new university is being built - Florida Polytechnic University (engineering, science, and technology school). Classes start in 2014 and it will have full accreditation by 2016. How many areas can you think of that are building a brand new university?



Under Construction, Florida Polytechnic University

Top Schools and 2013 Enrollment Numbers

Colleges and Universities (Fall 2013)

University of Central Florida 59,767 (public state university)

Full Sail University 18,000 (private 4-year school)

Rollins College 3,040 (private liberal arts college)

State/Community Colleges (Fall 2013)

Valencia College 60,770

Seminole State College of Florida 31,821

Lake-Sumter Community College 5,696

Education is a form of infrastructure that is absolutely necessary to foster sustainable economic growth. Quality schools result in a highly educated labor pool and spark entrepreneurship and creativity in communities. In education, Orlando gets high marks.

Orlando Real Estate – A Comeback Story

Orlando, like most of Florida, was one of the worst hit areas of the US in the real estate downturn. **Median home prices dropped from a peak of \$263,000 in 2006 to \$94,000 in January 2011.** This was largely due to the amount of speculation in the Florida market. The price run-up was more severe in Florida than nearly anywhere, so the downturn was equally dramatic.

What's interesting is that homes in Orlando suddenly became cheaper than in Tulsa, OK, El Paso, TX, and Cedar Rapids, IA. This signaled an over-correction in the market. I moved to Orlando from New York City in early 2011 and I was shocked to see the pricing so low. I actually had already been investing in the Florida market for over 2 years by the time I relocated to Orlando, so I had a frame of reference.

The year 2011 was a really interesting year to be in real estate. The market was bottoming out and while prices were very low, few individuals were active in the space. Most individuals were frankly too scared to acquire homes. Hard to believe, but in 2011, the media was still saying “run for the hills!” as it related to housing.

At the same time institutional investors (a.k.a. Wall Street) declared housing a “new asset class.” These guys were the first movers back into housing and they provided the bottom support the market needed and slowly the housing turned around. In 2012 and 2013, my firm helped one of these Wall Street groups acquire homes in Orlando. This group today has nearly 300 homes in Orlando and over \$250 million in single family homes throughout the Southeast.

As prices rose on properties in 2012 and 2013, slowly, individual investors returned to the market.

Confidence breeds confidence and if Wall Street can come in and buy billions of dollars in homes, then it must be okay for Main Street to buy 1 or 2 and supplement their 401k. Florida in general and Orlando specifically have been on the



radar now for around 2 years for many of the Wall Street buyers including: Blackstone, Goldman Sachs funded FREO, Waypoint, American Homes 4 Rent, and Colony Capital. These players are here to stay in the own-to-rent housing space and are now going public and selling bonds on the secondary market.

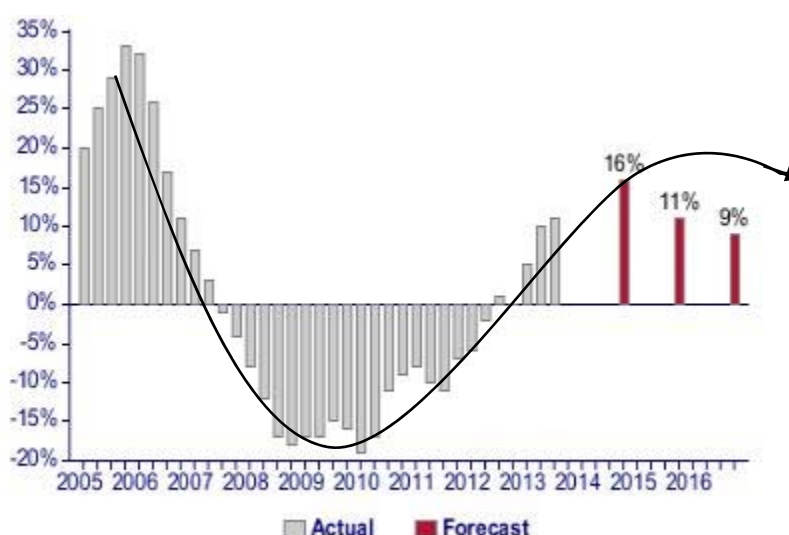
So where does a Main Street Investor fit in?

First, I think one needs to have a good understanding of where housing stands at the present time. In early 2014 prices were roughly 60% of the peak values and tracking 2003 prices. A full 10 years of the real estate timeline has been wiped out. While prices have gained in the last couple of years, the job market is very robust, as is population growth. Population growth is the #1 driver of a housing market, and **Orlando is one of the top 10 fastest growing cities in the US.**

In order for Orlando home prices to reach 80% of their peak value, prices will have to rise 30% from present levels. Most major indices show Orlando home prices rising 10%+ in 2014.

The chart below is from *Local Market Monitor*. If you haven't heard of them, you've probably seen their data. They are quoted by *The Wall Street Journal*, *Forbes*, *Barron's*, *Fox Business*, and others. *Local Market Monitor* is projecting Orlando home prices to rise 36% over the next 3 years.

Orlando Home Price Growth Rate



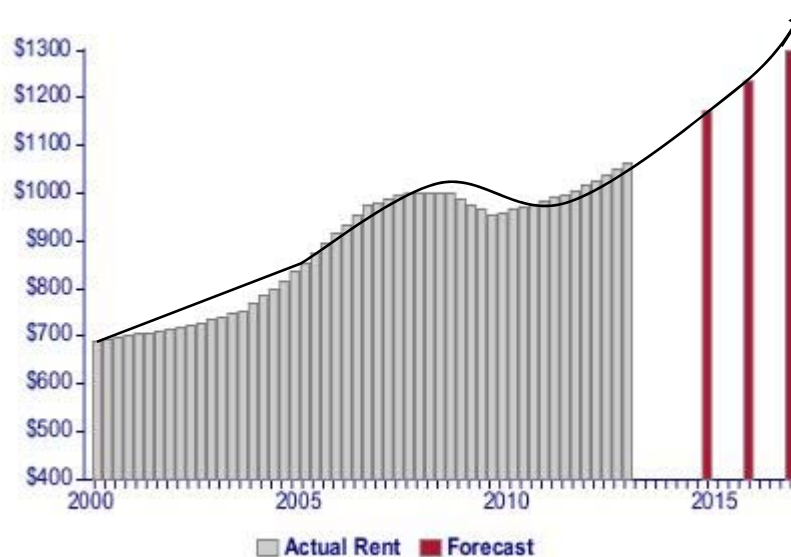
(Source: Local Market Monitor)

Orlando as a component of a diversified real estate portfolio

Orlando properties are well positioned for appreciation due to supply and demand but they still cash flow. A real estate portfolio isn't unique from any other investment portfolio and should have some diversification between high-yield and growth type properties. Orlando is a great example of a growth market that can offer cash flow, while being primarily geared towards growth. **Rents are expected to climb** as current rental inventory is depleted, and building is expected to continue to be far below normal historical levels.

Rents are expected to rise 16% over the next 3 years, according to *Local Market Monitor*.

Rent Growth and Forecast



(Source: Local Market Monitor)

Yields in Orlando can be expected in the 3% to 5% range when considering fixed costs. When factoring in modest appreciation (even at 4-5%), the combined yield can approach 10% without considering leverage.

Reflection

In writing this report, I paused to reflect on the dramatic changes over the last 3 years in the Orlando area. I researched the market here extensively before choosing to relocate my family.

Much of what I've learned about the local economic drivers can be written about, but some of it can only be felt by living in the market. During my years in Orlando, I've stepped foot in hundreds of homes and driven as many streets. Along the way I've been fortunate to assist many investors, both individuals and institutions, understand this market and stake their claim. With each day and every deal, I learn a little bit more about this amazing market.

I hope my knowledge and experience prove helpful to your exploration of opportunities.

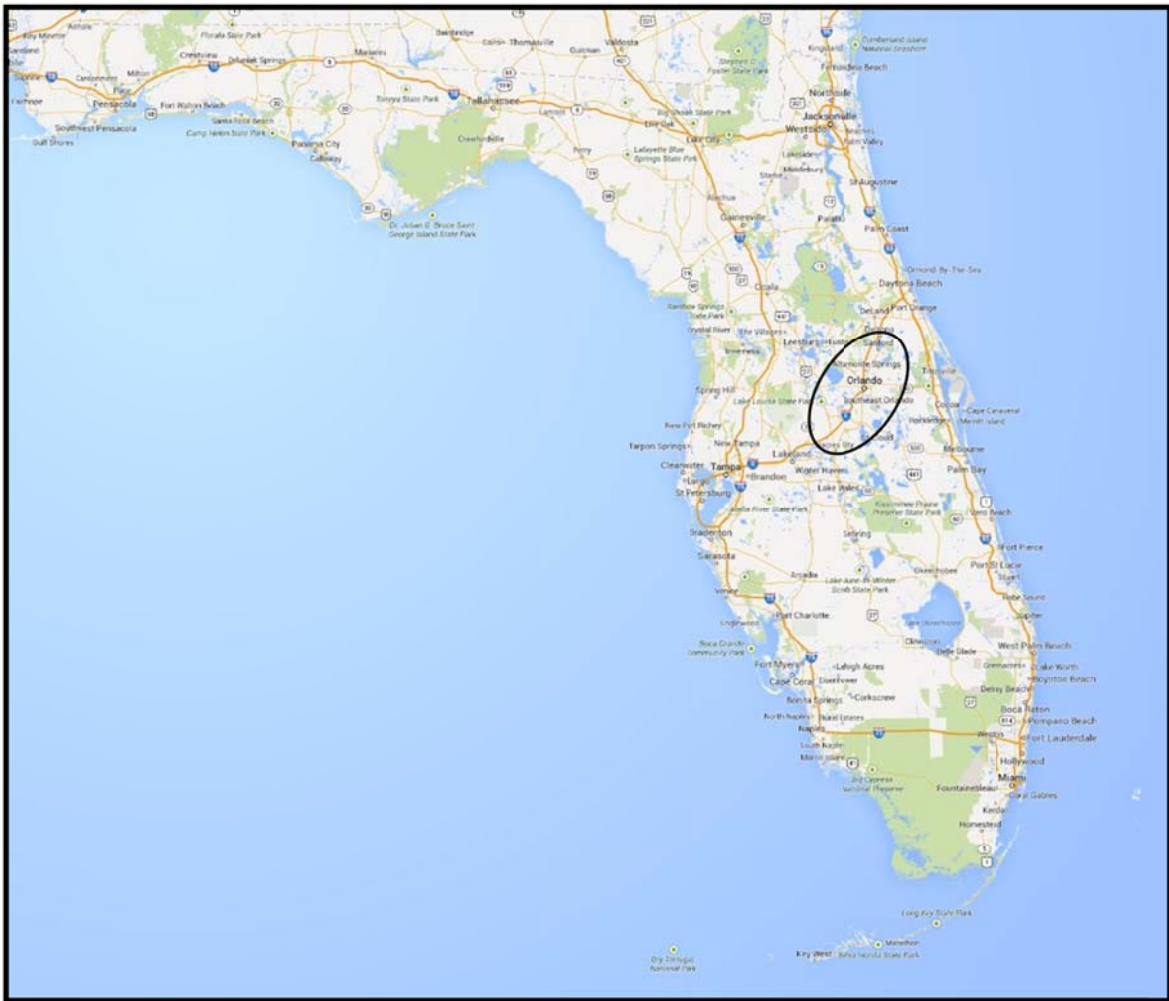
To Your Investing Success!

Ryan Hinricher

P.S. On the following pages, I've provided 3 case studies on the Orlando market and concluded with my Top 10 Reasons to put Orlando on your investment radar.

Ryan Hinricher is a real estate investor, founder and CEO of Investor Nation, and a regular contributor to The Real Estate Guys Radio Show. Ryan can be reached at ryan@investornation.com

ORLANDO AREA CASE STUDIES



Winter Garden, FL



- Single Family Home
- 5 bed / 3 bath
- 3,400 sq. ft.
- \$16,000 in repairs
- Built in 2006
- Leased for \$1,650
- Taxes \$2,900
- Insurance: \$1,100
- HOA \$600 per year

Purchased in 2013 for
\$232,500

The Property: This property was a property which a colleague in the real estate industry brought to my attention. The seller was distressed and purchased the home for \$413,000 back in 2006. They were severely underwater on the home and had just begun marketing the property for a short sale. The home is larger and needed painting on both the inside and outside, carpet, and fixtures.

The Location: This home is located in popular Winter Garden, a suburb about 15 miles west of Downtown Orlando. Winter Garden is known for its bike trails, parks, farmer's market, and charming downtown area. The school system is highly sought after as well.

The Investor: The investor who purchased this home lives in the Northeast U.S. and was looking for a rental property that would attract a high-quality tenant and provide stable exposure to real estate. His goals also included ensuring that he could acquire the home and achieve a better yield than a local bank was offering while having the opportunity to bet on a long term recovery in Orlando home prices.

The Strategy: What makes this property an ideal investment property is the low cost per square foot at the time of purchase in an area where homes this size are typically in the \$85+ per square foot range. Smaller homes in the area are selling well in excess of \$100 p/s/f. The investor saw the opportunity to go up market in order to get more value.

The Result: The buyer structured a cash purchase on the property. During the due-diligence period we arranged for home, pest, and HVAC inspections to identify potential issues within the home. Post close, we helped the investor get the property renovated and transitioned it to our local property management relationship. The investor was able to secure a professional tenant that has a managerial position in the health care industry. The tenant signed a 12-month lease and the investor has since added other homes to his portfolio in the area.

ROI on fixed costs: 5.1%

Purchased at 56% of peak value

Cost per sq. ft. \$68 (before repairs)

Investor's Exit strategy:

Lease for 7-10 years and sell to retail buyer

Davenport, FL



- Single Family Home
- 4 bed / 2 bath
- 1,800 sq. ft.
- \$4,000 in repairs
- Built in 1998
- Leased for \$1,100
- Taxes \$1,800
- Insurance: \$1100
- HOA \$900 per year

Purchased in 2013 for
\$149,900

The Property: This home was listed as a result of an institutional buyer who had purchased both homes and commercial properties and were selling off their single-family portfolio. The property was already leased for \$1,100 to a tenant that works at Disney World about 15 miles away. The home was in excellent condition though there were few upgrades to the home. At the peak of the market, this home sold for \$220,000.

The Location: This home was located in a gated golf course community and was an obvious deal at its list price. Other similar homes in the community were on the market for \$165,000+. Davenport is popular with Disney World, LEGOLAND, and other hospitality employees due to its proximity to I4 and low cost of living.

ROI on fixed costs: 4.84%

Purchased at 68% of peak value

Exit strategy:

Buy and hold for the long term

The Investor: The investor who purchased this home did so as a first real estate investment. While he works in the finance industry, he wanted a low entry price into the market and in an area that is in the path of growth. This property is a long term hold for the investor and his goal is to dollar cost average the market and acquire 1 home per year in the Orlando area.

The Strategy: This property was trading at a discount to market because of the seller's motivation to sell it leased versus removing the tenant and achieving a much higher purchase price. The area is primarily owner occupants and retirees making it a great resale property should the investor choose to do so in the future. The golf course is a great feature as well.

The Result: The buyer financed the property with a 20% down payment and paid for the repairs outside of closing. The tenant had 7 months left on her lease and plans on renewing at the end of the lease term. If the tenant does vacate, the owner should have no problem re-leasing to a like kind tenant in the area.

Orlando, FL



- Condo
- 2 bed / 2 bath
- 1,200 sq. ft.
- \$7,000 in repairs
- Built in 2001
- Leased for \$1,800
- Taxes \$3,400
- Insurance: \$500
- HOA \$5,000 per year
- Downtown High-rise

Purchased in 2013
for \$229,900

The Property: This property was an off-market listing through a relationship. The property was bank-owned and on an upper floor of a high-rise building in Orlando. The view was of the city where as similar properties with a lake view sell for another \$50,000-70,000. The property needed, paint, fixtures, and new stainless appliances. While this home didn't sell at the peak of the market, at one point the value was estimated around \$418,000.

The Location: This property is located on one of the best blocks in Downtown Orlando. Next door to Downtown Orlando's only Publix grocery store and directly across the street from Lake Eola. There are numerous restaurants, wine bars, and the local farmer's market within a couple block walk.

The Investor: The investor who purchased this property works at a private equity firm in London and is building a portfolio of high-quality rental properties in Orlando.

ROI on fixed costs: 4.04%

Purchased at 55% of peak value

Exit strategy:

Lease for 5+ years and sell to retail buyer or use as 2nd home in future.

The Strategy: Condos were hit particularly hard in Orlando and many investors are taking a slightly smaller yield for larger upside. New home construction is back but there are few new condo projects in Orlando slated to be built. This investor's goal is hold for the upside while making a positive cash flow.

The Result: This was a cash purchase and the investor was able to get a corporate tenant where the rent is actually paid by the corporation and not the tenant. The tenant has a managerial position at a privately held medical device firm.

My Top 10 reasons why investing in Orlando Real Estate makes sense:

1. Orlando is one of the top 10 fastest growing metro areas.
2. Orlando is a top 10 job creation city.
3. Orlando is the most visited city in the US with 57 million visitors in 2013.
4. Over \$11 billion in new infrastructure is in development, which will cement Orlando's position as an emerging global city.
5. The Lake Nona Medical City development is the largest development of its kind in the U.S.
6. The Orlando real estate market is at 60% of peak value.
7. Rent growth is projected at 16% for the next 3 years.
8. Home values are projected to increase 36% over the next 3 years.
9. We use salt to make margaritas, not melt sidewalks.
10. We have a secret weapon and it's a MOUSE.

About the Author:

Ryan Hinricher is Founder of Investor Nation and the firm's Portfolio Manager. The Investor Nation team works with individual, family office and institutional investors to generate positive cash flow and capital appreciation through purchase and hold of residential real estate.



Ryan is a professional real estate investor, housing market analyst, and change advocate. He has been investing in real estate for his own benefit since the year 2000 and has advised on over \$75 million in real estate transactions for his clients and partners.

Investor Nation Advisors was formed in January 2009, to establish an investor-centric approach to real estate investing. The Company has built a program for the analysis, purchase and management of real estate investment properties.

Ryan has been quoted by *The Wall Street Journal*, *Business Journal*, *24/7 Wall Street*, *The Real Deal*, *HSH*, *Classified Intelligence*, *Minyanville*, *Personal Real Estate Investor*, *The Scotsman Guide*, *Realty411*, *Realtor Magazine*, *Investopedia*, *US Chamber of Commerce*, and the book, *The Complete Guide to Locating and Profiting from Emerging Real Estate Markets*.

Ryan also co-authored the book, *Forget Wall Street - Invest in Blue Chip Real Estate*.

Ryan is a member of the Urban Land Institute and the American Real Estate and Urban Economics Association.