

MORE THAN A MICKEY MOUSE MARKET

ORLANDO, FLORIDA
2019 INVESTOR GUIDE

By Tyler Bennett & Ryan Hinricher

INTRODUCTION

In this report, my goal is to share with you all that I have learned being a Florida resident for the last six years and an investor in Florida real estate for nearly nine. I'll also provide a few case studies to give you a good feel for the Florida and, more specifically, Orlando real estate market on a more granular level.

The state of Florida is a large peninsula, located in the southeastern region of the U.S., that separates the Gulf of Mexico from the Atlantic Ocean. Because of its location, it is the only tropical climate state in the nation which has caused it to be popular for vacationers, retirees and those looking to relocate to a warmer climate.

Personally, having grown up in the frigid, snow-ridden winters of South Dakota, I never get tired of shoveling sunshine!

TABLE OF CONTENTS

2	Introduction & TOC
3	Fiscal Climate
4	Population
6	Location
9	Foreign Attraction
11	New Economic Drivers
14	Infrastructure
18	Orlando Real Estate: comeback story
21	Reflection
22	Top 10 Reasons Why
23	<u>About the Author</u>

See attached "10 Reasons
Why" & Orlando Area
Case Studies

FISCAL CLIMATE

People often ask me as a Florida resident, what's business and the fiscal climate like there? Is it as hospitable as the weather? Well, yes. **Florida has no state income tax and an overall low tax burden.** The state is also remarkably business-friendly. So much so it was given the #1 rank in "entrepreneurship" this past year by *Business Insider*. Which leads to the question. . .

WHAT DO RUSH LIMBAUGH, DEREK JETER & TIGER WOODS ALL HAVE IN COMMON?

They're all runaways. Limbaugh, Jeter and Woods all left the Northeast and California for Florida to escape the high tax climate. Hertz Car Rental also decided just a few years ago to leave New Jersey and move to Florida for similar reasons. Interestingly enough, Hertz was being courted by a number of other states, including Oklahoma. The deciding factor for the company was that trying to convince hundreds of employees and their families to move from New Jersey to Oklahoma proved difficult. Florida, however, had them signing up enthusiastically. All to say, higher quality of life is an additional factor for businesses to consider in moving to Florida.

Florida also has one of the leanest state governments in the U.S. Couple the low tax environment with the relatively low cost of living and excellent weather, and you end up with a state that is a major contributor to the overall American economy and currently ranks #7 in overall economic health comparatively to all the states.

P O P U L A T I O N

Florida's population boomed for many years, leveling off during the housing crisis with near zero growth back in 2009.

- Third largest population in U.S.
- Eighth most densely populated in U.S.
- A little over 20 million residents
- Ranked the seventh fastest growing state
- Growth rate of a little over 2%

However, recovery has been well on the way. And this growth has created a fiscal renaissance as of late. **Within this economic revitalization, the state has placed a continued focus on cutting taxes (up to \$600 million in cuts), reducing**

burdensome regulations and fostering a job-creating and tourism-friendly environment. In addition, a good chunk of the state budget has been designated for plans to strengthen 1.) Florida's public education system, 2.) environmental protection efforts and 3.) the state's law enforcement program. Overall, the last decade has seen the state of Florida tighten up into what looks like a well-run company, caring for its residents as well as its visitors— making many of its visitors turn into residents.

In fact, over the last 12 years — on average — over fifty-thousand people per year have left the state of New York alone 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 has left New York for Florida. Honestly, it mind-boggles me.

What I find truly amazing, though, is how surprised many of my friends and colleagues from New York were when they found out that Florida had overtaken New York as the third most populous state. As a real estate investor, I know that when people migrate, it means they'll be buying houses, start shopping for consumer goods, and create a ripple effect on the local economy. And just that has happened here. This is partly due to retirees.

A RETIREMENT HEAVEN OF SORTS

“10,000 people a day are turning 65 in the U.S.” — Pew Research

A high percentage of the people migrating to Florida, are coming for their retirement days. Which means, they bring their money but don't take up a job. So, their migration creates jobs. In fact, I learned a few years ago that population growth—not jobs— is the #1 driver of the housing demand. A great example of this working out well for Florida is The Villages; a retirement community located outside of Orlando. While the economy was in a tailspin (both in Florida and nationwide), The Villages experienced a population growth of 29% between 2007 and 2012 to nearly 95,000 residents. Likewise, in 2013 over 3,400 new homes were sold in the community, which was 300% more than any other new home community in the U.S.! **The Florida economy is the beneficiary of the population migration trend of retirees.**

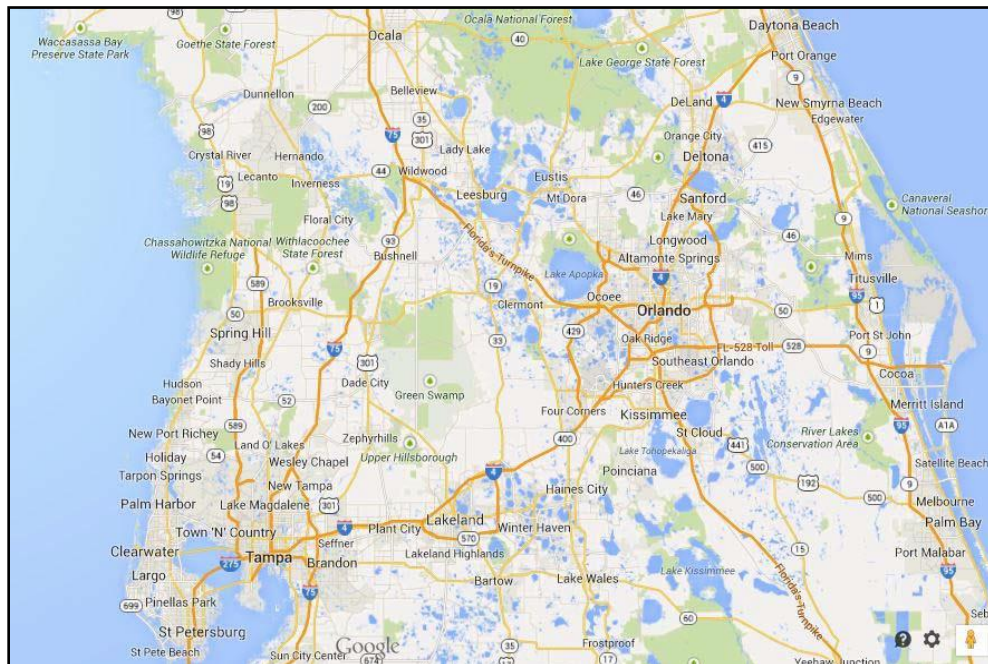
LOCATION, LOCATION, LOCATION

Located in Central Florida, Orlando is at the center of the I-4 corridor which stretches from Tampa Bay/St. Petersburg at the West Coast, to Daytona Beach on the East Coast.

The city enjoys a convenient spot just 55 miles west of Daytona and 85 miles east of Tampa, so it's within a two hour drive to the coast in either direction.

The proximity of Orlando, Tampa, Lakeland and Daytona creates a blending and blurring of community limits, making it easy to travel from one hub to the next. Of the approximately 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 advantageous for many reasons.

One of the most significant is that, to a great extent, it is insulated from hurricanes and resulting coastal flooding. Also, large and very attractive pieces of available land around the area have drawn developments like:



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

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

ORLANDO IS QUICKLY BECOMING FLORIDA'S NEW ECONOMIC POWERHOUSE



SOME HIGHLIGHTS

- A recorded 72 million people visited Orlando in 2017, maintaining it as **the most visited city in the nation**— still above New York City and Las Vegas. (2018's number will be available in May 2019)

- Tourism alone brought in nearly \$109 billion worth of economic activity to the entire state of Florida in 2015— an incredible percentage of which Orlando was responsible.
 - Orlando had a measured growth rate of 3.2% in 2018, adding more than 60,000 net new residents within a 12-month period. In fact, this past year Forbes listed Orlando as **one of the top ten cities to which Americans are moving (# 7)**; it also listed it as **#3 for future job growth**.
 - It is an emerging tech hub with over 2,600 technology companies.
 - Similarly, it's one of the top ten cities for the number of patents created annually.
 - *Worth* magazine recently ranked Orlando as one of the most “Dynamic Cities in America”.
-

F O R E I G N A T T R A C T I O N

While vacationing and tourism have been on a steady increase over the last few years, Orlando is just scratching the surface of its international visitor potential. Of the 72 million that passed through Orlando, it's estimated that only 10% were non-domestic visitors. Before I moved to Orlando, I didn't realize the potential impact of international visitors on a city's economy. When people from out-of-country come to visit, they are introduced to Orlando through its huge number of attractions. When they return home, the word spreads about these and attracts more visitors from that region, eventually creating a demand for jobs and careers for those speaking the

language of that region's visitors. Walk around any of the theme parks, restaurants and shopping areas in the more tourist-heavy sections of town and you'll hear many different languages as an array of cultures interact with one another.

Over the last decade, one of the fastest growing languages you'll have heard in the Orlando area is Portuguese. This may be due to the fact that Disney World, Universal Studios and SeaWorld launched a joint marketing campaign back in 2009 to start drawing more international visitors to their parks and resorts, particularly targeting Brazilians. Visa restrictions from Brazil to the U.S. are still somewhat strict, but that hasn't kept large numbers of Brazilians from booking vacations to the Greater Orlando Area. This may be because the BRIC countries (Brazil, Russia, India, and China) are being described as the emerging (fast growth) economies of the world; meaning they have a growing middle class that has extra money to put towards a large, annual vacation. . . and even a second home.



Hence, Orlando's is enthusiastically marketing towards Brazil. And evidence of this strategy paying off is everywhere, with many Brazilian restaurants, shops and businesses drawing in a growing number of Brazilian visitors *and*

residents. In addition, a number of Brazilian long-term visitors are buying second homes as they see the U.S., and particularly Florida, real estate market comparatively "on sale" to the prices in Brazil. And the Brazil-to-Orlando tourist route is just warming up. Only 1.8 million of Brazil's nearly 200 million population are traveling internationally. The word will continue to spread and numbers will, most likely, increase.

BEYOND TOURISM : THE BUSINESS OF CONVENTIONS

Because it has so many annual visitors, you will be hard-pressed to find a person that hasn't been to Orlando or at least had a relative or close friend who hasn't visited the city's attractions or attended one of its conventions. In addition to theme-park induced tourism, the convention business (ranked in the top ten in the U.S. since 2013) brings a considerable amount of commerce to the area. With a steady 1% increase in hotel properties since 2000, Orlando could be satisfied solely with tourism growth, but there is still more to the story.

NEW ECONOMIC DRIVERS

Orlando is the undisputed king of tourism. However, the city is also quietly becoming a diversified economy.

Medical and life sciences, aerospace, sports, gaming and technology are some of the industries helping to broaden the base of Orlando's economy. Here's a brief overview of some:

LAKE NONA MEDICAL CITY



Near the Orlando airport is an area called Lake Nona (a.k.a. The Medical City) which has grown into **the largest medical and life-sciences development in the U.S.** Lake Nona has seen the following additions in the last eight years:

- The University of Central Florida College of Medicine
- Sanford Turnham Medical Research Institute
- Nemours Children's Hospital
- UCF Burnett School of Biomedical Science
- M.D. Anderson's Cancer Research Institute
- New V.A. Hospital
- The University of Florida Research and Academic Center

These developments are components of the larger Lake Nona master plan to build a **holistic community replete with schools, stores, homes, and recreational facilities.** It will also create an additional 20,000 jobs over the next ten years and provide over \$7 billion in economic impact.

What's unique from an investment perspective is that this 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 many will most likely make the decision to lease versus buy their homes. As a landlord, I find this new tenant-type particularly interesting.

TECHNOLOGY

Technology has also become a major economic driver in Orlando. Slowly but surely, the city has become **the world capital of digital modeling, simulation and training (MS&T) and the top producing region for engineers in aviation, aerospace & defense.** For example, a gaming company called Electronic Arts has a large presence in Orlando. Overall, there are over 2,600 of these types of companies, employing over

42,000 people in the Orlando area. And these newer companies have been gaining community support over the last few years, with the Orlando iX five-day digital festival being held in Orlando in 2015. Over 80,000 people attended as the conference showcased Orlando-based companies' achievements in interactive media, arts and entertainment technology.

The energy around all of this development is contagious and illustrates not only Orlando's growth, but also its diversification over the last decade. This diversity having a positive impact on the local economy, particularly in housing. Investors in real estate have the option to look at a variety of neighborhoods, socio-economic groups and price points.

E C O N O M I C S N A P S H O T

- Unemployment 2.9% (down from 4.3% in 2016)
Versus .U.S. unemployment rate of 3.8%
- Employment over 1.35 million with Central Florida job market hiring at record levels and up 130,000 jobs in the last 3 years!
- *Orlando is seeing 1,000 new jobs created per week* and is believed to be positioned to continue its trajectory

I N F R A S T R U C T U R E P R O J E C T S

Orlando is seeing an infrastructure boom with many well-funded projects in process. These projects will provide more jobs, easier commutes and more cultural offerings, making the city more attractive to those seeking to relocate to the area. In fact, the City of Orlando, along with major employers such as Disney, Universal Studios and other

began an international campaign to showcase Orlando's existing and upcoming infrastructure a few years ago.

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



international airports (including the Orlando International Airport— MCO— which is the third largest origin and destination airport in the U.S.) and is a 45-minute drive from both Port Canaveral and the Atlantic Ocean. As of 2019, Orlando had plans and current investments of about \$15 billion in transportation, competitive product and quality-of-life features.

INFRASTRUCTURE SNAPSHOT

Sun Rail & Central Station

\$615 million investment in commuter rail system that runs 31 miles from Volusia to Orange County and will eventually connect 61 miles of track into Osceola County; along with \$200 million dollar development on Sun Rail line in Downtown Orlando

High Speed Rail

\$2.2 billion in express train termed Brightline, connecting Miami to Orlando

I-4 Ultimate

\$2.3 billion overhaul of Interstate 4 which connects the Gulf of Mexico to the Atlantic Ocean

Orlando International Airport

\$1.8 billion expansion directed towards a new terminal

Orlando Sanford International Airport

\$44 million expansion directed towards additional gates, baggage carousels, and security lanes

Wekiwa Parkway

\$1.7 billion creation of highway that will complete the Orlando beltway system

Creative Village

Transformation of the former Amway Arena site into a 68 acre mixed use, transit-oriented, urban infill focused on creative class development within Downtown Orlando; it is becoming home to higher education providers like Valencia College, tech incubators and accelerators, creative companies and more

Dr. Philips Performing Arts Center

The beautiful new home for the Orlando Symphony, Ballet & more that opened in 2014 in the center of downtown Orlando

Orlando City Soccer Stadium

New 25,500 capacity, \$115 million home to the Orlando City team, just blocks from the Amway Center and situated intentionally near one of Downtown Orlando's lower income neighborhoods with plans to revitalize the area.

Orlando Magic Entertainment Complex

The 875,000 square foot, \$480 million home to the Orlando Magic which opened in late 2010 and is home to the tallest, high definition video board in an NBA venue, as well as several high end restaurant, bar, and outdoor spaces.

HIGHER EDUCATION

The future is bright for Orlando's technology and media industries, and there will be a constant supply of excellent careers. Orlando is working to meet the need with support for higher education locally. **The area has several award winning public and private universities as well as state colleges.** The higher ed community is growing. In fact, a new university just west of Orlando called Florida Polytechnic University (engineering, science, and technology school) was recently built. Classes started in 2014 and it gained full accreditation in 2016.

TOP SCHOOLS & THEIR SPRING 2017 ENROLLMENT

College & Universities

University of Central Florida (public state university) : 64,000+

Full Sail University (private four-year school) : 15,000

Rollins College (private liberal arts college) : 3,240

State/Community Colleges

Valencia College : 60,883

Seminole State College of Florida : 32,771

Lake-Sumter Community College : 4,929

Education is a form of infrastructure that is absolutely necessary to foster economic growth because quality schools result in a highly educated labor pool which sparks entrepreneurship and creativity in communities. Orlando is certainly set up to foster this to a wide range of people.

ORLANDO REAL ESTATE

A COMEBACK STORY

Orlando, along with the rest of Florida, was one of the worst hit areas of the U.S. in the real estate downturn. Median home prices dropped from a peak of \$263,000 in 2006 to \$94,000 in January of 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 places like Tulsa, OK; El Paso, TX; Cedar Rapids, IA. This signaled an over-correction in the market. I myself moved from New York City to Orlando in early 2011 and was shocked to see the pricing so low. And I had actually already been investing in the Florida market for over two years by the time I relocated to Orlando, so I had some frame of reference. It was an interesting time to be in real estate. The market was bottoming out and, while prices were shockingly low, few individuals were active in the space. Hard to believe, but in 2011, despite prices and projections, the media was still telling people to "run for the hills" in the Florida housing market and so, frankly, people were too scared to acquire homes.

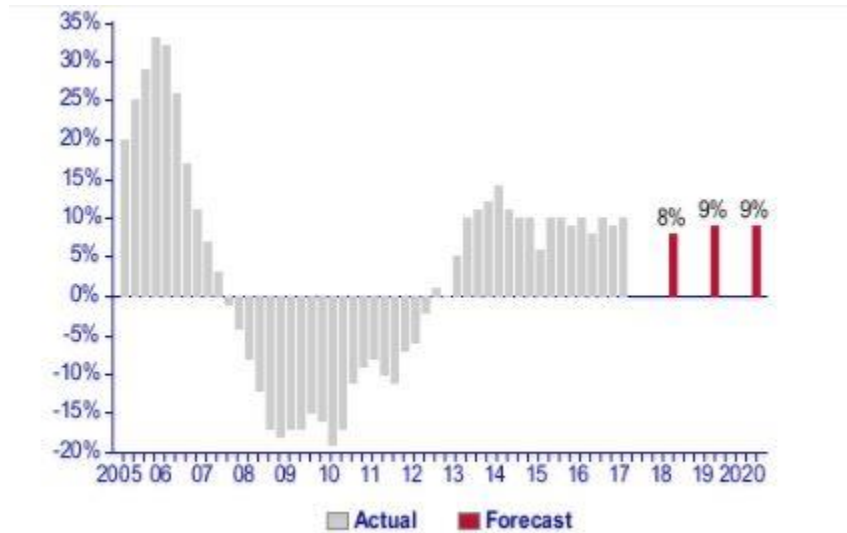
At the same time institutional investors (a.k.a. Wall Street) declared housing a “new asset class.” These guys were the first movers back into housing and they provided the bottom support the market needed. Slowly, housing turned around. In 2012 and 2013, I first helped one of these Wall Street groups acquire homes in Orlando. Today this group has nearly three hundred homes in Orlando and over \$250 million in single family homes throughout the Southeast. As property prices continued to rise throughout 2012 and 2013, individual investors slowly returned to the housing market. It was an example of confidence breeding confidence. If Wall Street could come in and buy billions of dollars in homes, then it must be okay for Main Street to buy one or two and supplement their 401k. **In general, Florida— and Orlando, specifically— have been on the radar now for about two 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 spacing and have been going public, selling bonds on the secondary market.

WHERE DOES A MAIN STREET INVESTOR FIT IN?

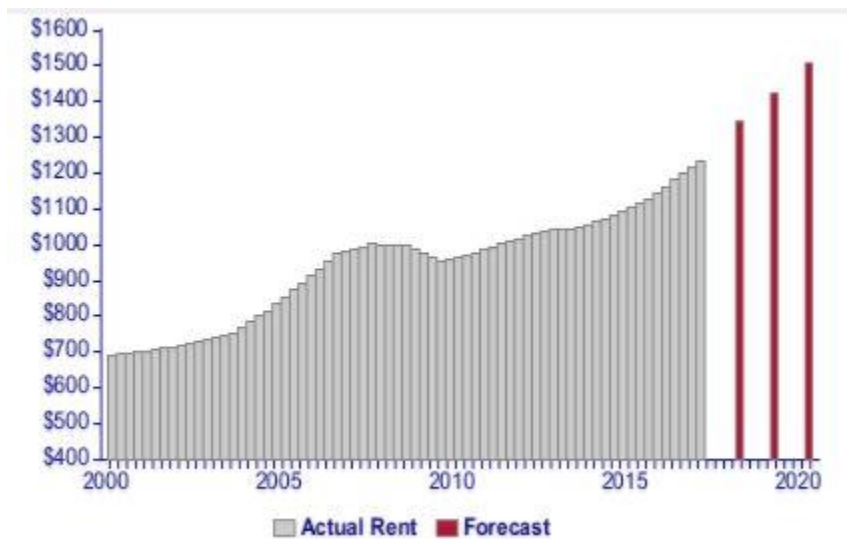
First, I think you need to have a good understanding of where housing stands at the present time. In early 2019 prices were roughly 89% of the peak. A full 10 years of the real estate timeline has been wiped out. While prices have gained in the last couple of years, the job market is very robust, as is population growth. Population growth is the number one driver of a housing market and Orlando is one of the top ten fastest growing cities in the U.S. *In order for Orlando home prices to reach 100% of their peak value, prices will have to rise 12% from present levels (as of this writing in March 2019).*

The chart on the following page is from Local Market Monitor. Even if you haven’t heard of them, you have probably seen their data. They are quoted by the Wall Street Journal, Forbes, Barron’s, Fox Business and others.

ORLANDO HOME PRICE GROWTH RATE



RENT GROWTH & FORECAST



REFLECTION

In writing this report, just know that I researched the market here extensively before choosing to relocate my family here. We've now been here six years and counting.

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 twice 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 proves helpful to your exploration of opportunities in the Central Florida area.

To your investing success!

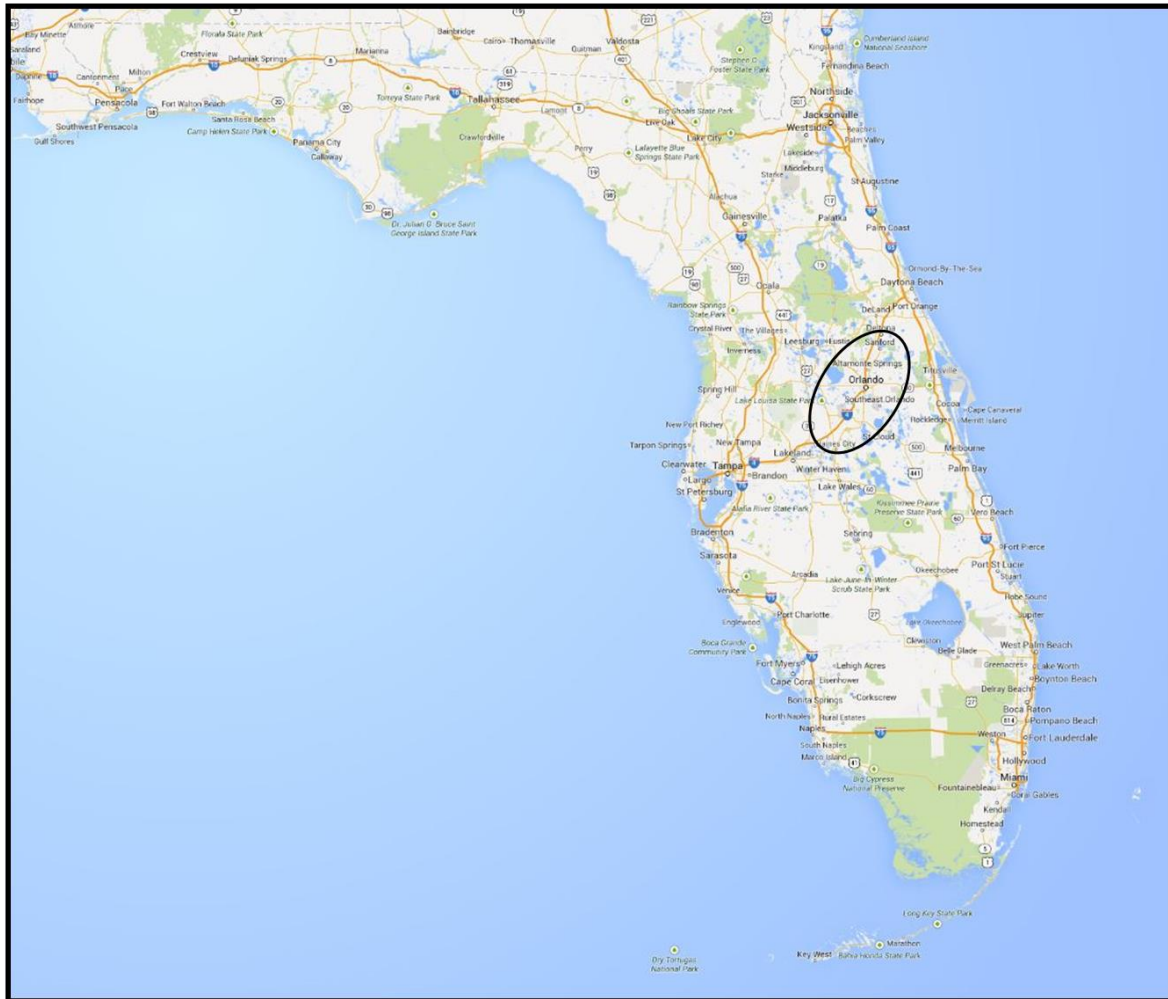
Ryan Hinricher

On the following pages, I've provided my personal Top 10 Reasons to put Orlando on your investment radar along with three case studies in Orlando real estate.

MY TOP 10 REASONS WHY INVESTING ORLANDO REAL ESTATE MAKES SENSE

1. Orlando is one of the top ten fastest growing metro areas.
2. Orlando is a top ten job creation city.
3. Orlando is the most visited city in the U.S., with over 60 million visitors annually.
4. Over \$11 billion in new infrastructure has been in development over the last decade, which will cement Orlando's positions 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% peak value.
7. Rent growth is projects at 16% for the next three years.
8. Home values are projected to increase 36% over the next three years.
9. We use salt to make margaritas, not melt sidewalks.
10. We have a secret weapon and it's a mouse.

ORLANDO AREA CASE STUDIES



2013 Construction!



- 4 bed / 2 bath / 2 car
- 1,975 SF
- Leased for \$1,475
- Taxes \$2,600
- Insurance: \$460
- HOA \$500 annual
- 15 Minutes to new Amazon distribution center
- 25 Minutes to Disney World
- Appraised for \$182,000
- Only \$1,700 in repairs needed

Purchased for \$171,000

The Property: This property is a newer home in a well-established neighborhood that we have leased many homes in. This is a great opportunity for an investor to buy at a discount to current build costs

The Location: The property is very convenient to I-4 and is in one of the fastest growing corridors or the Orlando metro area. It is close to a major and growing hospital, new distribution of Amazon and others, and an easy commute to Disney World and the tourist corridor.

ROI on fixed costs: 7.6%

Exit strategy:
Lease for 5+ years and sell to retail.

In Summary: The home appraised for \$11,000 over the purchase price giving the investor some implied equity. Very little work was needed and the house was leased within 14 days of purchase. This home is likely to see the projected 8-9% annual appreciation and will see rent growth as much of the new home competition near this home are high end vacation rentals being constructed.

Windermere, FL A+ Schools!



- Townhome
- 3 bed / 2.5 bath
- 1,500 SF
- \$5,000 in cosmetic repairs
- Built in 2007
- Lease Rate
- Taxes \$1,800
- Insurance: \$650
- HOA \$1980 per year

Active Opportunity for \$220,000 (July 2017)

The Property: This townhome offers a low entry price into one of the most in-demand areas of the Orlando metro. An investor should see low overall maintenance and potentially higher net returns than that of a single family home due to the HOA handling all of the exterior maintenance.

The Location: The location can't be beat at this price point. Windermere is known for its A+ schools, beautiful lakes and million dollar + homes. This neighborhood is fully amenitized with a private beach, fitness center, gathering areas, bike trails and more. New commercial (Fresh Market, restaurants and more), employment, a hospital and schools all under construction around this neighborhood.

ROI on fixed costs: 7.8%

Exit strategy:
Lease for 5+ years and sell to retail.

In Summary: Super-low price point to get into one of the best areas of Orlando. This is a fast-renting area due to A+ schools and tons of amenities. Upside is high as the area is growing rapidly.

New Construction!



- 2017 Construction
- 3 bed / 2 bath / 2 car
- 1,675 SF
- Leased for \$1,450
- Taxes \$2,200
- Insurance: \$627
- HOA \$480 annual
- 15 Minutes to LegoLand
- 30 Minutes to Disney World
- Close to chain of lakes

Purchased for \$172,490

The Property: This property was available at low entry price for an investor looking to own a rental home in a primarily owner-occupied neighborhood.

The Location: This property is located in the rapidly growing I-4 corridor southwest of Orlando and east of Tampa. Access to employment such as Amazon, Walmart E-Commerce, and FedEx

Distribution as well as Disney World, LegoLand and other parks is very convenient for commuting to work.

ROI on fixed costs: 8.%

**Exit strategy:
Lease for 5+ years and sell to retail.**

In Summary: This opportunity is good for an investor in an area where rents are projected to rise 15% in the next 3 years and appreciation is projected at 8-9% per year. This provides an investor solid cash flow and great upside with low ongoing maintenance due to the new construction.

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 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*, *U.S. 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.