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Condo Craze - 4/20/06

by Debra Wood

From MetroWest to Hunter's Creek, condominiums are making a mark on local real estate. Although the market shows signs of cooling, Southwest Orlando is experiencing a good deal of growth in new condominiums, apartment-to-condo conversions and condominium hotels.

Residential condos offer homeownership at less initial cost than many single-family dwellings, and they typically include common areas with shared amenities.

"It's a good starter market and a lifestyle decision," said **Paul Mondell**, who is with the Metrontario Group, developers of Urbana in Hunter's Creek.

Many of the people purchasing Urbana's 236 upscale units are downsizing and seeking to avoid maintenance work, Mondell said.



Paul Mondell of the Metrontario Group, developers of Urbana in Hunter's Creek, believes many people are purchasing condos to downsize and avoid maintenance work.

The four-building complex in the town center sits on the last piece of residential property left in Hunter's Creek. Because they are designed and built for homeownership, the three-story buildings include amenities — such as elevators, covered parking, oversized balconies, garbage shoots, and concrete-block construction to decrease noise between units — not found on all conversions.

More new construction is taking place in the mixed-use Veranda Park MetroWest development, scheduled for completion in 2008. The first of three buildings has sold out.

Conversions

As available land for new communities grows scarce in Southwest Orlando, many developers have turned to condo conversions, purchasing existing apartment buildings and selling the units as condominiums.

"It's affordable housing," said **D. Cole Whitaker**, executive director of Cushman & Wakefield Apartment Brokerage Services in Orlando.

"Housing has gone up over 20 percent a year for the last few years. Interest rates are attractive for the end buyer."

According to Real Capital Analytics Inc. of New York, in 2005, Orlando led the Southeast in the dollar volume of condo conversions with \$2.365 billion, just behind No. 1 Manhattan at \$3 billion. After nearly four years of steady climbing, the national quarterly sales for condo conversions dipped in the fourth quarter of last year.

Whitaker expects the conversions to stop if interest rates go up to 7.5 percent or 8 percent. At that point, rentals become more attractive to consumers.

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While people still prefer owning, apartment owners see an opportunity in selling out. Condo converters buy apartment complexes based on the price they can sell them to consumers and investors.

"We have found that value is somewhere 30 percent to 50 percent higher than as a rental deal," Whitaker said. "Rental guys are running around selling anything they can, while there are still legs in the conversion market."

Typically, anyone renting in a converting complex has the right to first refusal on his unit, but many cannot afford the condos so they must move out. Purchasers typically need to put at least 5 percent down, said **Dan Carlisle**, senior partner with mortgage lender Equilliance LLC of Orlando.



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Dan Carlisle is a senior partner with mortgage lender Equilliance LLC of Orlando.

Eric Martell of Re/Max Properties S.W. Inc. views condos as a way for someone to become a homeowner. However, he cautions his clients to stay away from conversions, even if they cost less than condos built as condos.

"I think people who buy are going to be in some distress, because there are a lot for sale," Martell said. "And I have concern with the overall construction quality. I think these complexes will deteriorate rapidly. Homeowner association fees will have to go up to cover maintenance, and it may be hard to resell them. People may have to take a loss."

Although the market shows signs of slowing, it remains active, and converters are offering more enticements to buy now. For example, The Foundations at MetroWest and Sunset Lake off Kirkman Road have offered no closing costs or no mortgage payments during six-hour weekend sales.

As of last month, the Multiple Listing Service showed 1,535 condos for sale in Orange County, ranging from \$35,000 to \$3.3 million, with a \$223,000 median asking price. Pending sales under contract totaled 425, ranging in price from \$29,900 to \$1.9 million, with a \$194,900 median price. This year, 762 condos have sold, with prices ranging from \$28,000 to \$800,000, with one sale in Winter Park at \$2.4 million. Martell explained the difference in the dollar value as sellers overreach and then settle for less money.

"This portrays a healthy market, with pendings about one-third of active listings and sales greater than one-third," Martell said.

With the volume of units on the market and an increase in foreclosures across the real estate spectrum, lenders are pulling back on investor ownership by charging higher interest rates or asking for larger down payments, Carlisle said.

"We have seen the pendulum shift from a strong sellers' market to a strong buyers' market in the last six months," Carlisle said. "Turnover is still strong. There's still a lot of volume, but the dynamic has shifted."

The number of conversions has allowed apartment owners still in the business to raise rental rates. Whitaker expects to see double-digit increases in some markets, including the MetroWest and Dr. Phillips areas.

However, Carlisle and Martell said individual condo investors hoping to rent often cannot cover their expenses and have a negative cash flow, and the properties are not appreciating at as fast a rate as they have in recent years.

Condo Hotels

Another condo vehicle entering the market with vigor, condo-hotels offer purchasers units in an upscale lodging. Owners can use their units for a limited number of days and make them available to the hotel operator to rent out to overnight visitors for the balance of the year.

"It gives buyers the amenities of a first-class resort and some ownership and perhaps a revenue stream, because there's a built-in leasing office," said Carlisle, who considers condo-hotels'

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popularity an extension of the real estate frenzy.

Major developers have announced plans for condo-hotels throughout the tourist corridor.

"It's a very popular concept," said **Chuck Whittall**, a principle of Unicorp National Developments Inc. and a resident of Isle of Osprey in Dr. Phillips. "It's easier to finance a hotel when the units are sold. People participate in the cost of building the hotel. It's a financing tool."

Unicorp plans Aqua, a \$2 billion, 2,100-unit, water-themed condo-hotel and retail complex at the site of The Mercado on International Drive.

"We think it's the best location of any project being constructed in Central Florida," Whittall said. "We expect the majority of buyers will be people from out of state who want to visit or [attend a] convention or come from Europe."

Last month, Starwood Hotels & Resorts Worldwide Inc. and Intrawest Corp. of Canada broke ground on The Westin Imagine Orlando Residences, the first phase of The Village of Imagine, across from the north concourse of the Orange County Convention Center. The project includes 470 Westin condominium suites and residences and 256 Grand Imagine condo-hotel rooms.



Orange County Mayor Richard Crotty (standing) speaks at The Westin Imagine Orlando Residences groundbreaking.

Fort Lauderdale-based Hospitality Development Group Inc. held a kickoff event in March for the InterContinental Resort & Residences Orlando at Palazzo del Lago, an \$800 million hotel and condo-hotel with 1,260 rooms on South International Drive at Lake Bryan.

CMA Cos. of Miami announced plans for the Blue Rose, an \$850 million, 39-story condo-hotel on Universal Boulevard. Prices begin in the low \$300,000s for a studio unit in the Las Vegas-style resort. CMA expects to break ground later this year.



The Blue Rose complex will rise on the corner of Carrier Drive and Universal Boulevard.

"A lot of the buyers so far have been from the local market," said **Camilo Aguirre**, a CMA partner. "It's been very refreshing to know it's been received so well by the local community."

Regency Suites I LLC recently broke ground on the \$100 million Regency Suites condo-hotel across from Orlando Premium Outlets. The 325 one- and two-bedroom units will accommodate four to six people each.

Purchasers can obtain mortgages with investment-property features, but the revenue from the hotel room cannot qualify as income for the loan. In addition, owners are typically responsible for a share of the resort's overhead. Condo-hotels are a relatively new concept, so people can only speculate on their long-term value.

"People are buying these condo-hotels without any real idea of what kind of cash flow they will generate," Carlisle said. "If cash flow is poor, the value of the unit could drop dramatically."

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