

IT'S A MARKET quite unlike any other, says Steve Ariko, a 25-year real estate professional with Homevest Realty. In certain parts of the city, homes are getting full-price offers the day they're put on the market. "It's a seller's market," says Ariko. "Whoever is selling is controlling the market. And [he or she] know[s] it. If you put a house on the market today, by this afternoon, it'll have a contract on it."

Thanks to low interest rates and skyrocketing home appreciation, the local residential real estate market will continue to thrive.

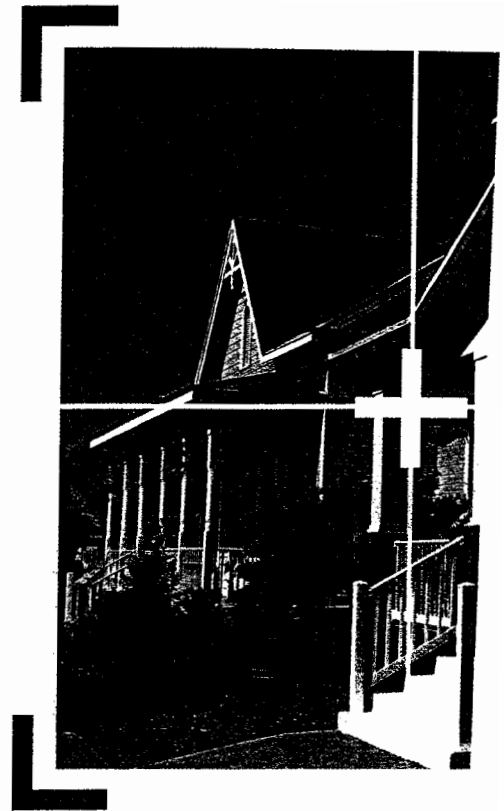
"In Orlando, both the annual housing starts and closing rates continue to set records," says Anthony Crocco, regional

And it's not only the single-family housing market. Orlando's condo and town house markets are "on fire," according to Phil Rampy, broker/owner of Olde Town Brokers Inc.

"Units are being bought almost as quickly as they hit the market," he says. "Especially in downtown Orlando."

WILL IT LAST?

Naysayers will forecast that it's only a matter of time before double-digit interest rates return and home values collapse due to escalating prices and a lack of inventory. You've heard it before — a bubble waiting to burst. Even experts tell us that the boom can't last forever and that, in fact, it's not healthy for



The Boom Continues

THE CENTRAL FLORIDA RESIDENTIAL HOUSING MARKET WILL STAY THE COURSE IN 2005.

By Kevin Fritz

manager at Metrostudy in Orlando, according to an article in *Florida Realtor* magazine. "Base home price growth also continues, as the single-family activity under \$150,000 is rapidly decreasing, and the \$200,000 to \$250,000 price point will soon be the market's leading segment."

Real estate has been the strongest economic driver throughout the country since September 2001. Prior to that, hot markets such as Orlando had been breaking sales records since 1993. Last year was no different. The Orlando Regional Realtor® Association (ORRA) reports that 26,000 single-family existing homes changed hands in 2004, the highest number of annual sales ever recorded in the Orlando area.

the overall economy that the real estate industry keeps such a fast pace. Are they right? Probably, but there isn't going to be a "bubble" that bursts. Home prices just won't appreciate at the same supersonic rate they have been; what may now be taking a day to sell might take 10 days to sell. Hardly a true down market, say the experts.

"The housing market in Orlando [is such that it's] almost impossible to improve from a sales, [housing] starts and permitting basis," says David Scott Jr., executive director of the Dr. Phillips Institute for the Study of American Business Activity and a professor of finance at the University of Central Florida. Nationally, ▶

There's no end in site to Central Florida's fast-paced housing sales.

from 1979 to 1991, the annual average number of existing homes sold was 3.1 million, according to the National Association of REALTORS (NAR). In 2004, an estimated 6.55 million homes were sold.

However, David Lereah, Ph.D., NAR's chief economist, fears that sales and prices may be increasing at "extraordinary" levels that are beyond "a healthy boom."

"The real test will come once many of these proposed buildings are completed and occupied," believes Rampy, a developer who's currently involved with 10 projects, such as Eola South at

Thornton Park, and 55 West, which will break ground in April. Rampy feels positive the demand for such projects will continue.

LACK OF INVENTORY

If you've been looking for a new house lately, you've likely run into a problem — no homes for sale. It's a matter of supply and demand — a huge demand and very little supply.

But not everybody sees the record low in housing inventory as raising a red flag. Inventory was 6,502 in January 2004; ORRA ▶

BUBBLE, BUBBLE, TOIL AND TROUBLE?

Get into a discussion about the burgeoning real estate market and sooner or later the word "bubble" will pop up. Anytime the housing market undergoes a tremendous boom such as the one we're experiencing in Orlando, someone always wants to talk about "the housing bubble."

Just exactly what is a housing bubble anyway? According to experts, it's a situation where home prices are artificially inflated so when interest rates rise and demand lessens, homes depreciate in value rather than appreciate.

"The boom will not bust," says David Lereah, Ph.D., chief economist for the National Association of Realtors. "You need a bubble to have a bust," he explained at a recent economic

symposium. "And I don't see any bubbles out there. We're not at the end of the boom, we're in the middle of it."

By the way, president of the Orlando Regional Realtor Association agrees there's no housing bubble at all.

"We may not keep getting the large amounts of appreciation we've had, but we're getting now, our values will still increase especially with the supply and demand. I don't feel that we're in a housing bubble."

David Scott is executive director of the Ph. Phillips Institute for the Study of American Business. As you can see, a bubble is a different story — an interest rate bubble, he explains, is what caused the sharp rise in the price of homes. It's that artificially pay-

ments are so low.

"Buyers are demanding more homes than they would if the rates were higher. They're not buying more than they can afford. They're just getting more homes for their money."

"Affordability is always an issue," he continues, "and it will be for Century Florida as long as the Orlando area is so dominated by the tourism industry. There's not a crisis, not an objective reflection of the need to attract more higher-paying jobs into this area that would help the homebuyers afford the next home purchase," he adds.

There's no overstatement that the sky is falling, Scott says referring to the so-called housing bubble. "But you'll be OK."

currently reports only 3,681 homes on the market.

Ariko, who specializes in the Winter Park area, agrees that the market is still strong, but he believes the lack of inventory and huge price appreciation over the past two years is a problem.

"There are strong buyers out there, but nothing to show them in their price range," notes Ariko. "It amazes me some of these new buyers can afford [to buy a home]. Eventually, people coming out of college won't be able to afford these homes."

Lydia Pisano, ORRA president, agrees. "The lack of inventory is a major problem, and that causes buyers to get into bidding wars, which drives the prices up even more."

According to Crocco and *Florida Realtor* magazine, 2005 will see Orlando having a "tremendous run in housing activity," although housing affordability could become an issue in the near future.

"However, the variety of buyer types in the Orlando area (working families, investors and active adults) allows the region to more easily absorb higher costs and weather an economic setback to one of its core buyer groups," he says.

However, both Pisano and Rampy do view home prices in Orlando as "relatively low" when compared to other Florida cities. Although prices have escalated quickly — from a median price of \$132,000 in January 2002 to \$188,000 by last December — most experts say it was all a game of catch-up. ▶

"I believe that we were due," says Pisano, an associate with Watson Realty. "We were behind a lot of other states, and [even] other parts of Florida as far as the percent of appreciation. I think that we caught up rather quickly, however, and it has caused some affordability issues.

"We are in a major seller's market," she continues. "With less than 4,000 active listings and many buyers ready to take advantage of the low interest rates, not only are sellers getting multiple offers in a matter of hours, but it continues to drive the prices upward." Pisano says one of her concerns is that sellers are worried their properties will go under contract so quickly that they'll have trouble finding a home for themselves simultaneously.

"Only excess inventory is an issue," believes Scott. "To me, low inventory means Realtors have done a good job."

THE 2005 OUTLOOK

So what's in store for 2005?

"It will be a good year both nationally and locally, but the aggregate market and the local market will eventually become a tad strained as a tighter monetary policy works through the economy," says Scott. He believes the federal reserve is likely to raise rates at each of its next three meetings, bringing the "target" federal funds rate to 3 percent from its current 2.25 percent level. Since conventional mortgage rates follow the 10-year Treasury note, it would not be unexpected to see 30-year mortgages hit 6.40 percent by May or June of 2005.

"That upward movement in rates will then put a drag on the local housing market. But, this isn't a disaster," he assures. "We've operated in prior years in a much more stringent interest-rate environment."

Pisano believes 2005 will be yet another record year for home sales, continuing a streak that is now in its 12th year. "I think interest rates may creep up a little, but nothing drastic. Prices will continue to rise, and 2005 will remain a seller's market."

Ariko is also envisioning a great year. "I'm predicting another good year. Interest rates are still fantastic. Not like when I got into the business — they were 17 percent!"