RCG

South Florida Condominium Market

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- The South Florida condominium market has become overheated with speculative demand leading to a premium in prices and rapid development creating a potential supply overhang in the upcoming years.

Summary of Current Conditions

- Current **economic and demographic trends** are positive in South Florida and will likely stay that way. The area's high quality of life, warm weather, location at the intersection of the United States and Latin America, and business-friendly climate will attract new residents and jobs, which bodes well for South Florida housing markets in the long run.

- Additionally, the **limited supply of developable land** in the area will encourage dense in-fill development going forward. The sprawling master-planned suburban development of the past will gradually be replaced by medium and high-density residential development both in established urban and suburban residential areas and in urban redevelopment sites.

- However, approximately 15,000 high rise luxury condominium units are currently under construction in South Florida and more than 50,000 additional units are either planned or proposed for the area. In the city of Miami alone, 9,800 major use special permit residential units are currently under construction and an additional 37,000 are proposed. The majority of these units are projected to come online between 2005 and 2007, creating a **surge in new supply**. The current level of condominium development is unprecedented for the area, although other booms have occurred in the apartment, single family, and land markets in the past.

- **Rapid price appreciation** has occurred for both new and existing condominium in the area. Similar, but less extreme, price appreciation in the late 1970s and early 1980s was followed by declining values in subsequent years. Although condominium price appreciation in recent years has mirrored similar gains in the single family market and in prices nationwide, price appreciation for preconstruction units and the overall volume of activity are causes for concern. The risk for declining values is most significant in Broward County and in the luxury market.

- The current condominium construction boom and rapid acceleration in prices seems to have been caused in part by interest from **speculative investors** rather than a sea change in the profile of residential demand in South Florida. Investors from Latin America, Europe, and the United States have driven up prices of preconstruction luxury high-rise units.

- The majority of activity currently underway is focused on the **luxury high-rise segment** of the market. While luxury high-rise condominiums have historically been a strong product type in South Florida and demand from snowbirds and second homebuyers will remain strong for this type of unit in the future, the current level of construction appears to be excessive.

- **Some areas are better positioned** to endure the supply deluge. South Beach is almost entirely built out and will likely stay attractive because of limits on future supply and the unique and appealing dynamic of the neighborhood. Broward and Palm Beach Counties may benefit from the current lower levels of speculation. The synergy created by three new massive developments at a desirable corner in downtown Miami could create value for residential purchasers that does not exist at the more scattered projects to the north of downtown. Individual projects, too, will fare differently. RCG is particularly concerned about conditions in Miami-Dade County, where development activity is currently exceeding levels in Broward and Palm Beach Counties.

- The recent **hurricanes** in Florida have left the majority of South Florida condominium development largely unscathed. Hurricanes Charley and Ivan skirted the Southeastern section of Florida and the eye of Hurricane Frances brushed to the north of Palm Beach County. Even with 120-mile per hour winds in the area, stricter building codes and advanced preparation saved most building sites from significant damage. Since Hurricane Andrew devastated South Florida in 1992, all high-rises are now required to use laminated high-impact glass to reduce damage. If anything, the hurricanes will likely be a boon to the local economy as federal relief dollars flow to the state and displaced residents of other counties seek housing in the less-affected counties of South Florida.

Outlook Summary

- As tens of thousands of new units come online and speculators attempt to flip their units to owner-users, supply may outstrip demand and recent price increases will likely come to an end. The speculative investors who are unable to close on their units, the developers who have sold to those people, and the lenders who have lent to those developers are poised to potentially experience hardship.

- We anticipate a glut of supply during the next few years to meet reduced levels of demand. It seems that too much of the wrong product is currently being built. As speculative demand dries up and interest rates rise, absorption of these units may take several years.

- Similarly, price appreciation since 2000 has driven prices to a premium that the market will eventually correct. In our base scenario, prices will decline slightly in the near term and stagnate through the medium term. In our decline scenario, prices may fall sharply in 2005 and subsequent years.

- Looking forward, developers of moderately priced condominium housing may be better off than those competing for the top few percent of buyers. While the majority of new projects being built are targeted at luxury buyers willing to pay a minimum of $300 per square foot and often well over $500 per square foot, lower-end projects may be more successful at attracting local owner-users. These units might also be more rentable in the case that they are not purchased by owner-users.

- In the longer-term, demand for condominiums in South Florida will be strong. The limited supply of developable land and favorable demographic trends in the area will lead to a shift towards high density housing in the future.

Introduction

We are writing this paper to address current concerns about the level of activity in the condominium market in the South Florida region. In a time when people are discussing the potential for housing bubbles nationwide, the high volume of activity in South Florida merits particular attention.

In recent years, the residential condominium market in South Florida has exceeded the already elevated levels of activity elsewhere in the country. Demand has thus far kept pace with massive amounts of new supply, leading to strong price appreciation in many markets. Although demand for preconstruction sales has seemed to be strong, it is important to understand where this demand is coming from and whether it will be sustained through the completion and delivery of a historically high number of new units between 2004 and 2007.

Condominiums are an important part of the South Florida housing stock and condominiums make up a higher percentage of total housing stock in the area than in almost any other part of the country. Looking forward, land supply constraints and strong population growth will encourage increased condominium development activity as demand for high density housing increases. With suburban residential development rapidly approaching the Everglades urban growth boundaries, land availability has already begun to decline and land prices will only rise farther with increasing scarcity.

However, the recent spate of development is too much, too soon. As in the early 1980s, tens of thousands of new units are being built in excess of projected demand. Over the next few years we anticipate a supply overhang as units are delivered to a market unable to bear the level of new supply. Additionally, condominium prices have accelerated rapidly and are at a significant premium above historical norms. As new supply comes online and interest rates rise, it is possible that these premium prices could revert to the norm.

In this paper we will discuss a range of factors that contribute to the current situation in South Florida and will affect the market outlook going forward.

- The paper begins with a discussion of South Florida's current economic profile and RCG's outlook on the **economy** through 2006. We discuss the major drivers of the economy: international ties, trade and tourism, as well as other smaller but important sectors.

- In the following section, we outline current and projected **demographic** trends in the area. We also discuss the profile of South Florida tourists, an important contributor to future population growth.

- From there, we move to a specific **historical analysis** of the South Florida condominium market. We outline past residential real estate cycles before discussing condominium sales volumes and price appreciation.

- The next section details sources of **demand** for condominium units and profiles of the people creating that demand. We address demand profiles for different submarkets as well as the role speculative investment plays in creating demand.

- In the **supply** section, RCG analyzes current condominium development trends in a historical perspective. We go on to discuss how South Florida's limited supply of developable demand will affect supply dynamics in the future before going into an in-depth analysis of building permit data.

- Burrowing deeper, we outline **current condominium development activity** in the Building Activity by Submarket section. Here, we walk through major projects in each important submarket, starting in Miami and moving north.

- Finally, the paper includes our **outlook** for the market and RCG's **conclusions** from this analysis.

Economy

South Florida's economic growth routinely outpaces the nation as a whole. In the twelve months ended June 2004, total employment in the area grew by 1.8%, up from 0.7% in 2002. Although the manufacturing, information services, and transportation and utilities sectors lost jobs, strength in the construction and service industries more than compensated for those losses. Construction was the strongest sector in the economy in the year to June 2004, with employment growth reaching 5.5%. The professional and business services and the financial activities sectors combined added 9,300 jobs in the first six months of 2004. The leisure and hospitality sector was also strong, posting 3.0% growth in the year ended June 2004.

In general, the economy is strongest in Palm Beach County, followed by Broward and Miami-Dade Counties, respectively. In the twelve months ended June 2004, total employment grew by 2.2% in Palm Beach, 2.1% in Broward and 1.2% in Miami-Dade. Office employment in the two northern counties surged in comparison with the more moderate rate of growth recorded in the more mature Miami-Dade market.

RCG expects growth in the three metropolitan areas to average 1.9% in 2004, with the fastest growth occurring in Palm Beach County, where total employment is expected to increase by 2.8% overall. Employment growth in South Florida will accelerate to

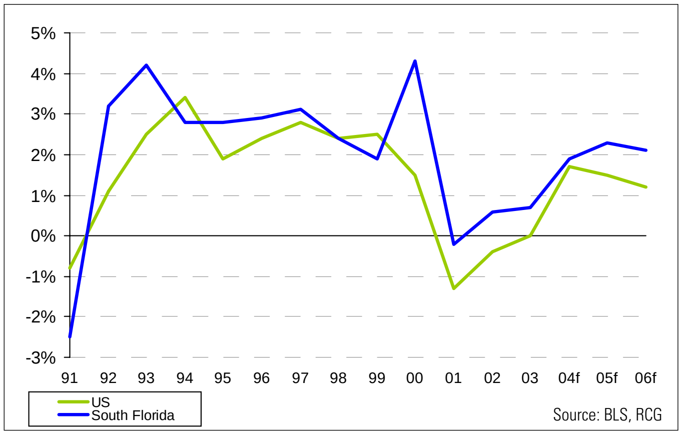
Southeastern Florida: Economic Indicators (000)

Data Includes Broward, Miami-Dade and Palm Beach Counties

Sector	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**Jun04**	**2004f**	**2005f**	**2006f**
Total Employment	2,050.8	2,100.6	2,140.4	2,232.4	2,228.0	2,241.3	2,256.2	2,280.9	2,299.4	2,352.0	2,400.7
% change	*3.1%*	*2.4%*	*1.9%*	*4.3%*	*-0.2%*	*0.6%*	*0.7%*	*1.8%*	*1.9%*	*2.3%*	*2.1%*
Construction	101.1	106.0	110.6	118.5	118.0	117.4	121.2	125.5	126.0	128.3	130.0
% change	*2.6%*	*4.8%*	*4.3%*	*7.2%*	*-0.5%*	*-0.5%*	*3.2%*	*5.5%*	*4.0%*	*1.9%*	*1.3%*
Manufacturing	145.8	139.0	137.1	129.2	116.7	108.8	103.0	102.2	101.5	100.3	98.8
% change	*-0.7%*	*-4.6%*	*-1.4%*	*-5.8%*	*-9.6%*	*-6.8%*	*-5.3%*	*-1.5%*	*-1.4%*	*-1.2%*	*-1.4%*
Trade	396.7	407.3	415.6	422.8	417.6	413.2	411.6	415.3	420.6	431.0	440.0
% change	*3.5%*	*2.7%*	*2.0%*	*1.7%*	*-1.2%*	*-1.0%*	*-0.4%*	*0.6%*	*2.2%*	*2.5%*	*2.1%*
Trans. & Util.	93.7	97.5	101.9	99.5	95.9	96.5	93.0	92.8	93.1	94.8	96.3
% change	*3.1%*	*4.1%*	*4.4%*	*-2.3%*	*-3.6%*	*0.7%*	*-3.6%*	*-2.1%*	*0.1%*	*1.8%*	*1.6%*
Info. Svcs.	53.1	55.9	59.8	66.9	66.2	61.4	58.1	57.9	58.0	59.0	60.1
% change	*3.9%*	*5.3%*	*6.9%*	*11.9%*	*-1.1%*	*-7.3%*	*-5.2%*	*-1.1%*	*-0.2%*	*1.8%*	*1.8%*
Finan. Activities	154.8	157.1	155.5	158.2	159.5	163.2	164.8	168.5	169.0	173.3	177.1
% change	*3.1%*	*1.5%*	*-1.0%*	*1.7%*	*0.8%*	*2.3%*	*1.0%*	*2.9%*	*2.5%*	*2.6%*	*2.2%*
Prof. & Bus. Svcs.	278.0	300.8	316.2	358.1	366.4	368.0	377.0	382.6	388.2	400.2	410.2
% change	*5.2%*	*8.2%*	*5.1%*	*13.3%*	*2.3%*	*0.4%*	*2.4%*	*3.0%*	*3.0%*	*3.1%*	*2.5%*
Educ. & Health Svcs.	250.5	251.4	253.9	258.8	268.7	277.5	285.9	288.7	293.0	302.2	311.1
% change	*4.3%*	*0.4%*	*1.0%*	*1.9%*	*3.8%*	*3.3%*	*3.0%*	*2.5%*	*2.5%*	*3.1%*	*3.0%*
Leisure & Hosp.	208.5	214.0	210.7	224.8	221.9	226.0	228.2	231.8	234.3	240.6	246.8
% change	*3.2%*	*2.6%*	*-1.5%*	*6.7%*	*-1.3%*	*1.8%*	*1.0%*	*3.0%*	*2.7%*	*2.7%*	*2.6%*
Other Svcs.	90.9	92.9	93.5	96.5	90.7	95.9	98.2	99.4	99.8	101.3	103.0
% change	*0.8%*	*2.2%*	*0.6%*	*3.3%*	*-6.0%*	*5.8%*	*2.3%*	*2.2%*	*1.6%*	*1.6%*	*1.6%*
Government	274.9	275.4	282.0	295.5	303.3	310.6	312.6	312.8	314.4	319.4	325.8
% change	*2.1%*	*0.2%*	*2.4%*	*4.8%*	*2.6%*	*2.4%*	*0.7%*	*0.8%*	*0.6%*	*1.6%*	*2.0%*
Unemployment Rate	6.0%	5.6%	4.7%	4.8%	7.3%	6.5%	5.8%	5.8%	5.7%	5.4%	5.5%

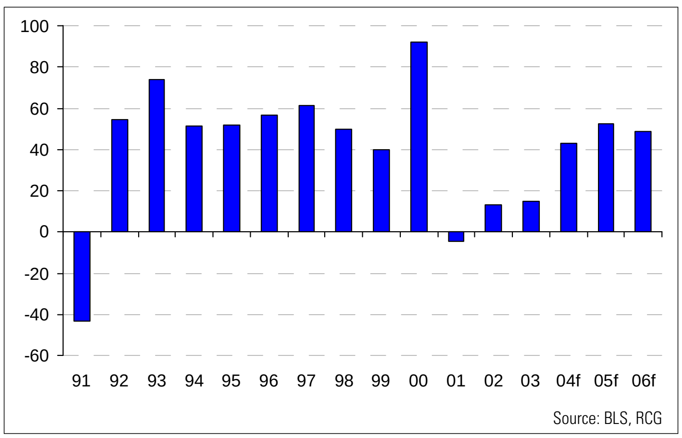
Sources: Bureau of Labor Statistics, U.S. Census, RCG

Employment Growth



South Florida Jobs Added

(Thousands)



2.3% in 2005 before stabilizing at 2.1% in 2006. We believe employment growth in the area will outpace national levels throughout RCG's forecast horizon (2004-2006), with the service sectors contributing the majority of this growth.

Office employment will lead employment growth in the area, as companies in the financial and professional and business services sectors add 30,000 jobs during the next three years. We expect educational and health services to grow by a total of almost 9% by 2006, as the aging population of the area puts increasing pressure on the health care system. Employment growth in the leisure and hospitality sector will average 2.7% annually throughout the forecast horizon. We assign the South Florida economy a low-medium risk ranking through 2006.

International Gateway

South Florida is a U.S. gateway to the Caribbean, Central and South America. More than 50% of Miami-Dade County residents are foreign-born, the highest percentage of immigrants as a portion of total population of any city or county in the United States. More than 60% of residents speak Spanish at home. Miami's location and diverse, multilingual workforce have attracted the operations of approximately 1,250 multinational firms. It is home to many Latin American divisional headquarters and is considered the financial capital of Latin America and the Caribbean.

Trade

The port of Miami and the airport are major hubs for wholesale trade and have an important multiplier effect on the economy. The trade sector has faltered in recent years, but employment in the sector grew by 0.6% during the twelve months ended in June 2004. Improving economic conditions in the United States and abroad will lead to strengthening in the sector through the end of 2004.

The Port of Miami posted a 3.7% increase in tonnage during fiscal year 2003 to nine million tons. Container traffic also exceeded the one million TEU mark. The port is currently in the midst of a five-year, $346-million capital improvement program. The Port Everglades in Fort Lauderdale caters to both the cruise and the container cargo business. It is the third busiest cruise port in the country, surpassed only by Miami and Port Canaveral in Central Florida. Total waterborne commerce exceeds 23 million tons per year, and the port has annual operating revenues of $89 million.

Miami International Airport is the most important international freight airport in the United States and one of the top cargo airports overall. Cargo traffic at the airport increased to 950,000 tons in the year to June, 11.3% above the same period a year ago. Approximately 80% of the cargo traffic at the airport is international freight.

Busiest U.S. Ports by Traffic, 2003

Port	Traffic 2003 (TEUs)*	Traffic 2002 (TEUs)*	Change
Los Angeles	7,148,940	6,105,864	17.1%
Long Beach	4,658,124	4,524,038	3.0%
NY/New Jersey	4,067,812	3,749,014	8.5%
Oakland	1,923,104	1,707,827	12.6%
Charleston	1,690,847	1,592,834	6.2%
Tacoma	1,738,068	1,470,826	18.2%
Seattle	1,486,465	1,438,872	3.3%
Hampton Roads	1,646,279	1,437,779	14.5%
Savannah	1,521,728	1,327,939	14.6%
Houston	1,243,706	1,159,789	7.2%
Miami	1,028,565	980,743	4.9%

*TEUs=twenty-foot equivalent units

Source: American Association of Port Authorities

Busiest U.S. Airports by Total Cargo, 2003

Airport	Cargo (Tons 000)	% Change
Memphis	3,391	0.0%
Anchorage	2,097	2.7%
Los Angeles	1,806	2.7%
Miami	1,637	0.8%
New York-JFK	1,633	2.9%
Louisville	1,618	6.2%
Chicago	1,605	23.7%
Indianapolis	891	2.8%
Newark	868	1.0%
Atlanta	797	8.6%

Source: Airports Council International

Most Concentrated Leisure and Hospitality Centers

Metro Area	% of Job Base
Las Vegas, NV	29.6%
Orlando, FL	18.4%
Salinas-Monterey, CA	15.3%
Honolulu, HI	13.9%
New Orleans, LA	13.2%
Santa Barbara, CA	12.8%
San Francisco, CA	11.8%
West Palm Beach, FL	11.6%
Vallejo-Fairfield-Napa, CA	11.6%
Colorado Springs, CO	11.4%
U.S.	**9.4%**

Source: BLS, RCG

With many multinationals' Latin American headquarters based in Miami, improving economic conditions in countries like Argentina and Brazil will boost exports and augment local job growth. As international trade increases throughout the Americas, Miami is poised to benefit from its strong Latin American ties. The city is currently competing to become the permanent site of the secretariat of the Free Trade Area of the Americas, a position that would cement its importance as a trade and financial center.

Tourism and Entertainment

South Florida's beaches, warm weather, and unique culture make the area a top international tourist destination. The leisure and hospitality sector in the area grew by 3.0% in the twelve months ended June 2004. The sector added 3,600 jobs in the first six months of this year alone. As the worldwide economy strengthens, Miami will benefit from further growth in domestic, European and Latin American travel.

Miami has one of the most concentrated hotel markets in the country. The area's hotel market is posting strong gains as demand steadily improves, with July year to date occupancy up 8.9% above the same period a year ago. Revenue gains are accelerating at an even more dramatic rate. In the year to July 2004, RevPAR increased by 16.5% above 2003. Hotel occupancy for the year reached 71.3%, making the market one of the most supply constrained in the market. Average daily room rates for the year to date were $121, compared to $113 in 2003. Overall for the state of Florida, year-to-date occupancy through July 2004 was 70.8%, up 7.9% from the previous year and well above the 62.1% rate nationally. Florida RevPAR in the first half of the year increased 11.9% above the same period a year ago. The statewide average daily room rate was $98, compared with $87 nationally.

Miami International Airport is one of the most active U.S. airports for international and freight traffic. The airport ranks 12th for total passengers and 4th for cargo traffic. The airport is currently undergoing a $4.8 billion Capital Improvement Program. When complete, the project will include 2.7 million square feet of new concourse and terminal space. In addition, the airport is building more than one million square feet of new cargo warehouse space and improving its cargo handling and transportation infrastructure. According to the U.S. Department of Transportation, Fort Lauderdale/Hollywood International Airport is one of the fastest growing in the nation. The airport is a convenient and often less expensive alternative to the more congested Miami International Airport. Low-cost air carriers, which capture approximately one-third of the passenger market there, help boost Fort Lauderdale as an affordable travel destination. The airport is in the midst of a $655 million expansion program that includes additional gates within the terminal complex, an extension of the runway, two additional parking garages, and airport access improvements.

Most Concentrated Hotel Markets

Metropolitan Area	Location Quotient
Las Vegas, NV	14.97
Orlando, FL	3.62
Honolulu, HI	2.67
New Orleans, LA	1.86
San Francisco, CA	1.85
Miami, FL	1.59
San Diego, CA	1.51
West Palm Beach, FL	1.39
Nashville, TN	1.29
Phoenix, AZ	1.22

Source: BLS, RCG

A location quotient measures the regional concentration of employment in a particular industry. If employment in an industry were evenly distributed throughout the U.S., a region's location quotient would be 1.0. Mathematically, it is defined as the ratio of the percentage of total employment in industry x in a given region divided by the percentage of total employment in industry x nationally.

South Florida is the cruise capital of the world. As the tourism industry recovers, passenger activity is increasing at the area's ports. In 2003, four million passengers and one of every three U.S. cruise ships departed from the Port of Miami. In order to meet growing demand, the port of Miami is currently expanding what is already the world's largest cruise passenger terminal. Construction on two new terminals and the remodeling of two existing terminals is slated for completion before year-end 2004. Miami is the homeport for Carnival, Celebrity, Norwegian, Royal Caribbean, Windjammer and other cruise lines. Additionally, Port Everglades is the third busiest cruise port in the World, handling 3.4 million passengers in 2003.

Regional Focus: The Economies of Miami-Dade, Broward, and Palm Beach Counties

Although the three South Florida counties are located adjacent to one another and have largely interlocked economies, each of the areas has distinct economic drivers. Although tourism, trade, and educational and health services are major drivers in all of South Florida, each county has higher concentrations of activity in certain sectors. Trade activity is more concentrated in Miami-Dade and Broward counties around the ports, distribution centers and airports in those areas. Palm Beach, which does not have a major port, has relatively less trade activity. The transportation and public utilities sector, also related to port and airport activity, is most concentrated in Miami-Dade County, where 6.4% of the workforce is employed in the sector, compared with 2.6% and 2.0% in Broward and Palm Beach, respectively.

Educational and health services, a sector supported by the area's large retiree population and booming population growth, is less concentrated in the more-suburban Broward county. Relatively fewer aging people and young families in the area make it less important than in Palm Beach and Miami-Dade counties.

Miami is the region's economic and cultural center and is the home of the area's largest transportation hubs, financial district, artistic institutions and universities. In an attempt to cement the city's stature as a word class metropolitan center, the city is building the architectural landmark Performing Arts Center of Greater Miami. The center is hoped to become a major tourist draw to the area and a catalyst for the revitalization of downtown. However, the Cesar Pelli-designed project has fallen far behind schedule and is racking up large cost overruns. The complex, often compared to New York's Lincoln Center and Washington's Kennedy Center, is now set for completion in early 2006. It will consist of a 2,400-seat Ballet Opera House, a 2,200-seat Symphony Hall, a 200-seat theater and a central plaza. In May, the County approved plans for a new $367 million retractable-roof baseball stadium scheduled for completion in 2007. The 38,000-seat stadium housing the Florida Marlins will be located adjacent to the Orange Bowl and is hoped to encourage revitalization of the Little Havana area.

The economy in **Fort Lauderdale and Broward County**, once propelled largely by tourism and construction is becoming increasingly diversified as the area matures. The county has been in talks with Shanghai Corporation for Foreign Economic and

South Florida : Economic Indicators by County

	1997	1998	1999	2000	2001	2002	2003	Jun04	2004f	2005f	2006f
Miami-Dade County											
Total Employment (000)	967.3	989.5	1,002.0	1,028.9	1,013.4	1,002.8	1,004.9	1,011.5	1,016.5	1,034.7	1,051.7
% change	*2.00%*	*2.30%*	*1.30%*	*2.70%*	*-1.50%*	*-1.00%*	*0.20%*	*1.20%*	*1.20%*	*1.80%*	*1.60%*
Unemployment Rate	6.70%	6.30%	5.10%	5.60%	8.40%	7.40%	6.60%	6.70%	6.40%	6.20%	6.10%
Broward County											
Total Employment (000)	633.6	647.1	662.3	696.7	698.8	712.4	721.6	731.1	738.5	757.4	774.2
% change	*3.00%*	*2.10%*	*2.40%*	*5.20%*	*0.30%*	*1.90%*	*1.30%*	*2.10%*	*2.30%*	*2.60%*	*2.20%*
Unemployment Rate	5.80%	5.50%	4.60%	4.40%	6.40%	5.80%	5.30%	5.20%	5.20%	5.00%	4.90%
Palm Beach County											
Total Employment (000)	450.0	464.0	476.1	506.8	515.8	526.1	529.7	538.2	544.3	559.9	574.8
% change	*5.6%*	*3.1%*	*2.6%*	*6.4%*	*1.8%*	*2.0%*	*0.7%*	*2.2%*	*2.8%*	*2.9%*	*2.7%*
Unemployment Rate	4.8%	4.3%	3.8%	3.7%	6.2%	5.7%	5.0%	4.9%	4.8%	4.6%	5.2%

Sources: Bureau of Labor Statistics, U.S. Census, RCG

Technological Cooperation to build and operate up to one million square feet in a retail and office project and free trade zone for Chinese commerce. Major companies with headquarters in the area include DHL, which recently consolidated Airborne Express operations to its corporate headquarters in Plantation. It is currently undergoing a $1.2 billion U.S. expansion. AutoNation, the country's largest automobile retailer and ranked number 97 on the Fortune 500, is based in Fort Lauderdale and employs more than 1,500 people in the area. Other major employers include American Express, Motorola and JM Family Enterprises. The county is currently benefiting from increased construction, trade, retail and tourism activity. Cruise activity through Port Everglades has been strong with Cunard selecting the port to be the winter base for its new Queen Mary 2, the world's largest luxury cruise liner.

West Palm Beach has also diversified from its dependence on agriculture and tourism into a service and light industry-based economy. The area has long been known for its large retiree population but has increasingly attracted companies relocating from other parts of the country, as well as from Dade and Broward counties to the south. Through financial incentives and training programs, the local government has successfully recruited new companies to the area, spurring job growth. The Scripps Research Institute is planning to build a new research complex on Mecca Farms, west of Palm Beach Gardens. The $670 million project would include 365,000 square feet of laboratory and research space and is slated for completion in 2006. The new Scripps Research Center is expected to act as a catalyst in the development of a biotech research hub in Palm Beach County. Palm Beach County is also the home of Office Depot's corporate headquarters; Pratt & Whitney's Space Propulsion Division and Rinker Materials Corporation are located in the area and are two of South Florida's largest manufacturers.

Demographics

Approximately 30% of Florida's population lives in the Miami-Fort Lauderdale-Palm Beach area. In 2003, the combined resident population of Miami-Dade, Broward and West Palm Beach counties totaled 5.3 million people, up from 4.3 million ten years prior. In the five years to 2003, the overall population of the three counties grew by more than 450,000 people. During the same period of time, the number of households swelled from just above 1.8 million to slightly under 2.0 million. RCG expects the area's population will grow an average of 1.5% per year through 2006. The area's population will grow by almost 250,000 people, and approximately 88,000 new households will be formed between 2003 and 2006.

Although in-migration has slowed from the high levels of the 1990s, the three South Florida counties will attract new residents through the forecast horizon. Through the 1990s, **positive net migration** averaged slightly more than 70,000 people per year. Positive net migration has slowed since 2000 and totaled 58,100 in 2003. RCG expects the area's strong economy and high quality of life to draw new residents, leading net migration to accelerate through the forecast horizon.

As the area's population has increased, **housing affordability** has steadily declined. The percentage of households able to afford the median priced home fell to 42.8% in 2003 from a high of 54.5% in 1998. We expect affordability to decline further through the forecast horizon, dipping below 40% in 2006.

South Florida is an area of significant **economic disparity**, home to wealthy celebrities and snowbirds as well as hundreds of thousands of poor immigrants. Although the census bureau no longer ranks Miami as the country's poorest city, 27.9% of the city's population lived below the poverty line in 2003. Out of the 233 large counties in the Census survey, Miami-Dade county ranked 18th with 18% of its residents living in poverty and Broward county ranked 103rd with 12% of its residents considered impoverished. Approximately 11% of Palm Beach residents live below the poverty line.

South Florida per capita **incomes** steadily rise from south to north, from $18,497 in Miami-Dade to $23,170 in Broward and $28,801 in Palm Beach county, according to the 2000 census. Incomes in the city of Miami average only $15,128 and are even lower in North Miami, North Miami Beach, and Fontainebleau.

With such a large portion of residents with modest incomes, a large number of residents are restricted to affordable housing options. Nonetheless, large segments of the population are quite wealthy and are willing to pay premium prices for housing in exclusive locations. Incomes in upscale cities such as Aventura, Bal Harbour, and Coral Gables are much higher than the average. Fisher Island, a private Island in Biscayne Bay, has an average per capita income of an incredible $236,238. Palm Beach is also a remarkably wealthy place with an average per capita income of $109,219.

Of the 68 markets RCG tracks, Miami had the fourth lowest **home ownership rate**, behind only New York, Los Angeles, and San Francisco, three other markets with high housing costs. In comparison, West Palm Beach and Fort Lauderdale were among the

Southeast Florida: Population and Housing Indicators

Includes Broward, Miami-Dade and Palm Beach Counties

	Units	1997	1998	1999	2000	2001	2002	2003	2004f	2005f	2006f
Total Population	(000)	4,750.2	4,836.9	4,932.0	5,028.3	5,117.6	5,209.2	5,288.8	5,368.0	5,450.3	5,536.4
% change		*2.1%*	*1.8%*	*2.0%*	*2.0%*	*1.8%*	*1.8%*	*1.5%*	*1.5%*	*1.5%*	*1.6%*
Births	(000)	68.8	69.2	69.5	69.9	70.2	70.8	71.3	71.6	71.7	71.9
Deaths	(000)	45.3	45.8	46.1	46.4	46.7	48.1	49.8	50.5	51.3	52.0
Natural Increase	(000)	23.4	23.5	23.4	23.5	23.6	22.6	21.5	21.0	20.4	19.9
Net Migration	(000)	74.4	63.1	71.7	72.8	65.7	69.0	58.1	58.2	61.8	66.2
Total Households	(000)	1,818.5	1,846.5	1,876.5	1,906.8	1,934.8	1,963.4	1,987.3	2,011.5	2,042.6	2,074.9
% change		*1.8%*	*1.5%*	*1.6%*	*1.6%*	*1.5%*	*1.5%*	*1.2%*	*1.2%*	*1.5%*	*1.6%*
Households Able to Afford Median Priced Home		50.0%	54.5%	50.9%	48.6%	48.4%	44.6%	42.8%	42.9%	42.3%	39.9%

Sources: U.S. Census, RCG

Highest Home Ownership Rates, 2003

Metro Area	Ownership Rate-households	Rental Rate-households
Nassau-Suffolk	84.8%	15.2%
Norfolk	79.6%	20.4%
Kansas City	76.9%	23.1%
Detroit	75.3%	24.7%
Minneapolis	75.2%	24.8%
Salt Lake City	74.7%	25.3%
West Palm Beach	74.6%	25.4%
Fort Lauderdale	74.0%	26.0%
Charlotte	74.0%	26.0%
St. Louis	73.3%	26.7%
Philadelphia	73.2%	26.8%
Tampa	69.8%	30.2%
U.S. Average	67.3%	32.7%

Source: U.S. Census

most affordable markets in our real estate universe. In 2003, the homeownership rate in Miami (Dade County) was 55.9%, compared with 67.3% nationally. In West Palm Beach (Palm Beach County) and Fort Lauderdale (Broward County), the rates were 74.6% and 74.0%, respectively.

Tourism and Visitors

Many of South Florida's homeowners were once the area's vacationing visitors. Likewise, many of the speculative investors in the area are people who have ties to the region either through business, family, or vacationing. As such, the visitor profiles of each of the three counties help inform our understanding of the sources of demand in the different areas.

Miami-Dade County is the most visited and visible of the three South Florida counties. Total visits to Greater Miami (Dade County) in 2003 were 22% higher than in Broward County, the area's second most active travel market. International visitors accounted for 46% of total visits to the area. Domestic visitors come largely from the Northeastern United States and the midwest, with the Northeastern United States accounting for 24% of all visitors and the midwest comprising 12% of the total. The bulk of international visitors come from Latin America, with the area accounting for 29% of all visitors, followed by Europe at 11%, and Canada at 5%. Almost 30% of international visitors stayed with friends or relatives during their stay and 4% stayed in property they owned or rented. Very few domestic tourists stayed in housing they owned or rented. Approximately 43% of the visitors who stayed in hotels stayed in South Beach.

The visitor profile in **Broward County** differs from that in Miami-Dade County, with far more domestic and European visitors than Latin American visitors. The top areas by origination of visitors were New York, New Jersey and Connecticut, accounting for 19% of the total, followed by Illinois at 5%. Foreign visitors accounted for 26% of the total, with Europe at 10%, Canada at 6%, and Latin America at 5% of the total. In Broward County, 30% of visitors traveled to the area to visit family and 32% of visitors stayed in a private home. The majority of visitors traveled for the purpose of vacation or leisure, but 21% stayed in the area for business.

In comparison to the large number of visitors arriving from abroad in Miami-Dade and Broward Counties, 91% of visitors **to Palm Beach County** in 2003 were domestic; 4% arrived from Europe, 2% were from Canada and 2% were from Latin America. Vacationers constitute a much smaller portion of total visitors in Palm Beach County than in Dade and Broward Counties. In 2003, 57% of hotel guests were in town for business. Only 34% reported being in town for leisure or vacation. The statistics in this county do not account for travelers who stayed in private residences.

The tourism profiles of each of the counties are relevant to the condominium market in two ways. First, domestic tourism markets are more insulated from global uncertainty and international economic and political forces have a lesser effect their economies. Second, the out-of-area visitors are an important source of demand for condominium sales. Although a perfect correlation between the tourist composition and the composition of condominium investors does not exist, it is possible that those people more familiar with the market and those who vacation there are more likely to invest in real estate in the area.

South Florida Tourism

County	Tourism Share	Condo Buyers
Miami-Dade County		
Domestic	**54%**	
Northeastern United States	*24%*	*Beaches, Aventura*
Midwest United States	*12%*	*Beaches*
International	**46%**	
Latin America	*29%*	*All Submarkets*
Europe	*11%*	
Canada	*5%*	*Beaches*
Broward County		
Domestic	**74%**	
New York, New Jersey, Connecticut	*19%*	*Beaches, Downtown*
Illinois	*5%*	*Beaches, Downtown*
International	**26%**	
Europe	*10%*	*Beaches*
Canada	*6%*	*Beaches*
Latin America	*5%*	*Beaches*
Palm Beach County		
Domestic	**91%**	
Northeast	*24%*	*Beaches, Downtown*
Mid Atlantic	*15%*	
Midwest	*15%*	
International	**9%**	*Beaches*

Sources: Tourist Development Council of Palm Beach County, DK Shifflet & Associates, Synovate Miami

Historical Perspective: Previous Residential Cycles

Historically, construction activity in South Florida has been cyclical. After World War I, Florida experienced a land boom when wealthy northeasterners turned to Florida as an alternative to vacationing in Europe, and Miami became an important trade hub with Cuba, the Caribbean and Latin America. Developers created master-planned communities and most of the activity was along a 100-mile stretch from Palm Beach to Miami Beach.

Speculative investment led land prices to increase by a factor of six between 1923 and 1925. Rapid capital flows from the Northeast, the Midwest and Europe, including $500 million in capital from the Northeast alone, contributed to price appreciation. A lag period of several months between the payment of an initial 5% deposit and closing allowed enough time for values to appreciate significantly before deals closed. High prices and a major hurricane in 1926 led to a real estate crash before the beginning of the Great Depression.

Rapid development has been the norm in South Florida for years. Arvida, a St. Joe Company, developed Weston, a master-planned community of almost 60,000 residents, beginning in the 1980s. The project sold out in 16 years, half the time originally projected. At its peak, the company was closing on about 1,400 new homes and almost 600 re-sales per year.

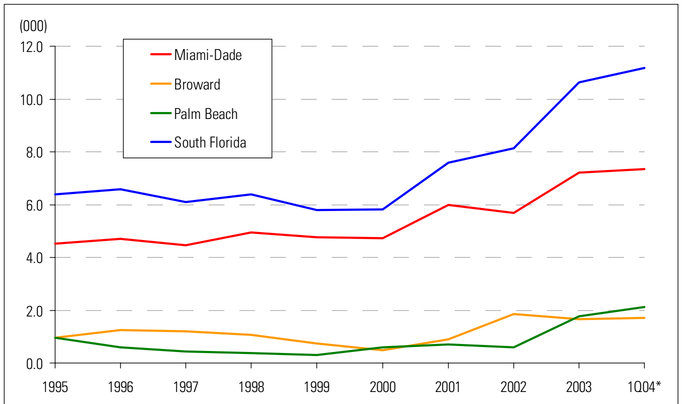
However, multifamily building booms in the early 1980s and early 1990s led to oversupply in the market. Looking at permits issued for multifamily units, a statistic that includes both units for sale and rental apartment units, current levels of construction are high by historical standards but do not approach the levels of construction reached in the 1980s. However, we must discount this comparison to some extent because of the extraordinary circumstances leading to a nationwide apartment building boom in the early-to-mid-1980s. The high levels of activity during that time period were largely an effect of the Reagan tax reform of 1981 that created tax incentives for real estate investment and led to a flight of capital into real estate, especially through syndications or limited partnerships and especially into multifamily (apartments) and hotels/motels. Investment and construction surged through the mid-1980s until Congress reversed much of the Reagan tax changes in 1986 and values declined. During this period, over-development, even as prices of individual condominium units were declining, led to a surplus of unsold condos in the Brickell Avenue corridor of Miami.

Although the condominium market in the 1980s is perhaps the best analogy to today's market in South Florida, recent episodes of home price appreciation in Los Angeles and Houston are also informative. The median home price in Los Angeles during the early 1990s aerospace recession declined by a cumulative 23.4% in five years. In Houston during the mid-1980s oil price collapse, the median home price declined 23.7% in three years. Both of these cycles were caused by recessions and major job losses in the respective local economies, a scenario that we are not predicting for South Florida. However, rising interest rates, excess supply, and a shift of investor asset allocations away from South Florida real estate could provide a similar shock to the housing market as was caused by the recessions in Houston and Los Angeles. Furthermore, while interest rates were declining during both of those episodes, we expect interest rates to rise through the forecast horizon, adding additional strain to the market.

Demand

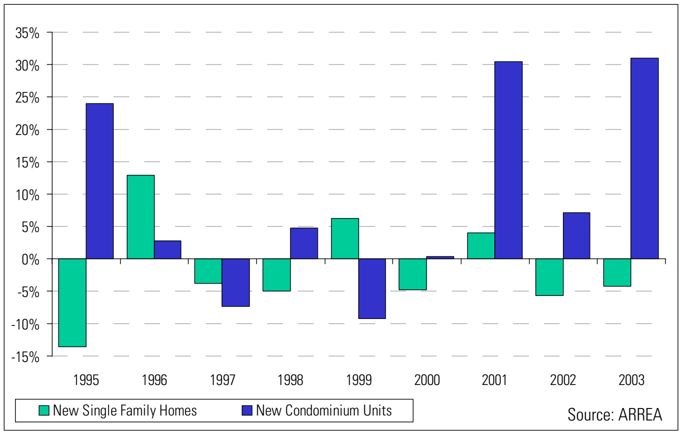
New condominium sales have accelerated rapidly since 2000. Between 1995 and 2001, new condominium sales in the three county area averaged approximately 6,400 units per year. The pace of Miami condominium sales accelerated through the first quarter of 2004, causing the number of units available for sale to steadily fall. In the year to March 2004, 11,186 new condominium units were deeded in the South Florida, an increase of 5.1% above the 10,641 units sold in 2003. This acceleration follows a 31.0% increase in new sales between 2002 and 2003.

South Florida Condo Sales Volume
New Condos

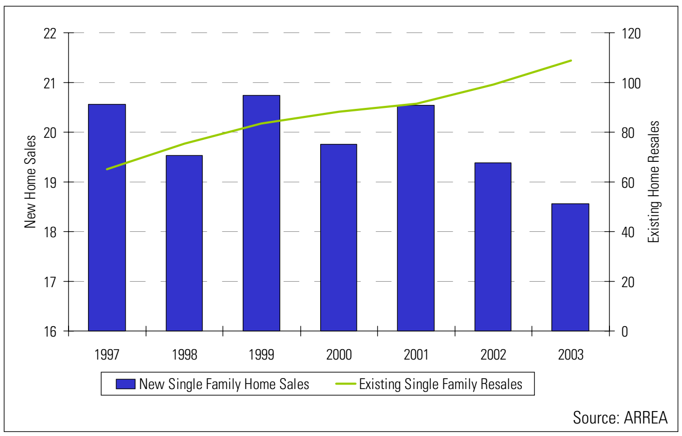


*Annualized
Source: ARREA

South Florida New Residential Sales Volumes
% Change Yr/Yr



South Florida Single Family Home Sales
(Thousands)



Growth in new condominium sales has outstripped **existing condominium sales** and both new and existing single family sales in recent years. Existing condominium sales volumes have risen steadily in response to the low interest rate environment and decreasing single family home affordability. In 2003, 56,544 existing condominiums traded hands in South Florida, a 4.0% increase above 2002. Existing condominium resales have increased every year since 1995 with sales of existing condominiums in South Florida growing by an average of 7.3% per year during that time.

New **single family home sales** have decelerated from levels reached in the mid-1980s and again in the mid-1990s. Total new single family home sales declined between 1997 and 2003 by an average of –1.5% per year. In the same time period, existing single family home sales grew by an average of 9.0% per year. Demand for housing in South Florida has steadily grown in recent years while the supply of newly constructed single family homes has decreased and become more expensive relative to the market as a whole.

Sales volume data is calculated from newly recorded deeds once transactions have closed. The majority of new high-rise luxury condominiums do not even break ground until a certain number of units have been pre-sold. Many developments in South Florida have been entirely pre-sold long before completion of the project. **Pre-sales**, however, are contracts to buy, rather than final sales. The buyer puts down a 20% deposit (often in two installments) and sometimes signs a nonassignable contract, preventing flipping before the building is completed. Other developers allow re-sales before the completion of the building, but only through their sales office and with restrictions to limit competition for the units they are trying to sell. The buyer closes on the deal and pre-sold units are recorded as sales when construction has been completed.

Much of the activity in South Florida is concentrated in pre-sales, and deliveries will not peak until 2005-2007. As these buildings come online and pre-sales buyers are asked to close, new condominium sales volumes may rise further.

Condominium Price Appreciation

Our analysis of price appreciation for the condominium market in South Florida is based on zip-code level home price indexes from the Mortgage Risk Assessment Corporation (MRAC). The data is calculated from monthly sales information for repeat sales of the same residence. Our figures are based on transaction-weighted zip-code level data aggregated to the MSA-level for the Fort Lauderdale (Broward) and Miami (Miami-Dade) metropolitan areas. The national data represents data from the 50 largest MSAs in the United States.

Since 1976, single family homes and condominiums have followed comparable **long term price appreciation trends** both nationally and in South Florida. Nationally, condominium prices appreciated somewhat more rapidly than single family home prices, with a compound annual growth rate of 6.8% from 1976

Residential Price Appreciation

	1976-2003 CAGR	2002	2003	**2Q04 vs. 2Q03**
Single Family				
Broward County	5.1%	11.9%	11.4%	**8.5%**
Miami-Dade County	6.5%	6.9%	13.1%	**13.1%**
United States, ex. Florida	6.3%	8.5%	10.4%	**12.8%**
Condominium				
Broward County	4.7%	12.4%	11.9%	**8.8%**
Miami-Dade County	5.0%	5.9%	20.3%	**19.8%**
United States, ex. Florida	6.8%	7.7%	10.1%	**7.4%**

Source: MRAC, RCG

to 2003, compared with 6.3% for single family homes. Prices generally increased less in South Florida than nationally, although single family home prices in Miami-Dade County outpaced national single family home price appreciation.

Prices have increased more rapidly in Miami-Dade County than in Broward County to the north. Single family home prices in Miami-Dade County increased by a compound annual growth rate of 6.5% in the period from 1976 to 2003. In Broward County, prices increased by 5.1% during the same period. Price appreciation has accelerated in both areas since 2000, but accelerated more rapidly in Miami-Dade in 2003 and the first half of 2004. In the year to the second quarter of 2004, prices increased by 13.1% in Miami-Dade compared with 8.5% in Broward County and 12.8% nationally.

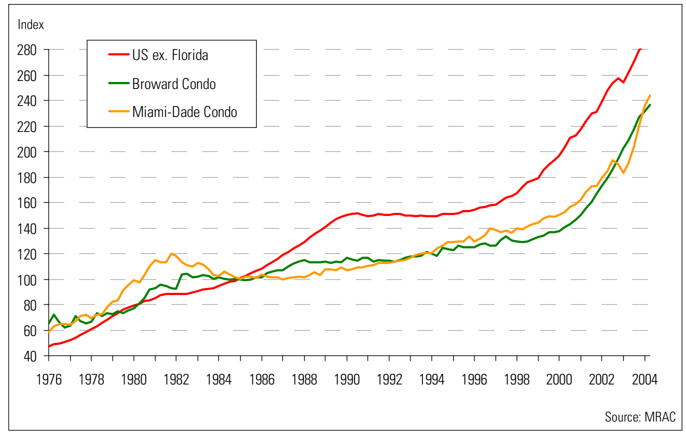
Unlike the rest of the country, where condominium price growth historically outpaced single family home prices, South Florida condominium prices have generally accelerated less rapidly than single family home prices. In the period from 1976-2003, the compound annual appreciation for condominiums in Miami-Dade County was 5.0%, versus 6.5% for single family homes. In Broward County, condominiums appreciated by 4.7% annually, compared with 5.1% annual growth for single family homes.

A recent explosion in condominium prices has reversed the trend in South Florida. In Miami-Dade County, condominium prices increased by 19.8% in the twelve months ending June 2004 and 20.3% in 2003. Appreciation in Broward County, while still outpacing single family price growth, has been more moderate. Prices increased 8.8% in the twelve months to June 2004 and 11.9% in 2003.

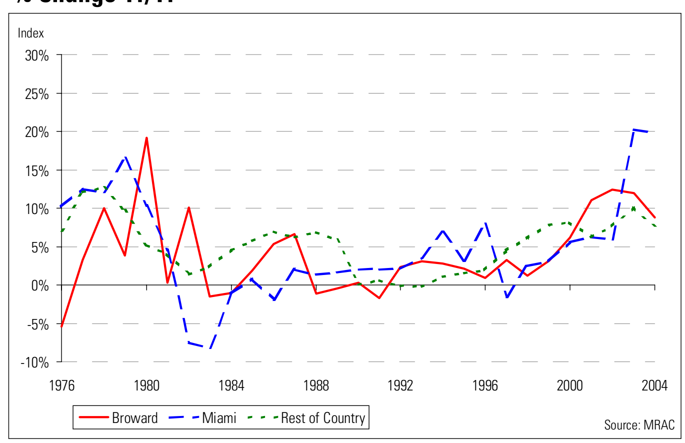
The pace of price appreciation in the area is a cause for concern. The only period of comparable price appreciation for condominiums in the county was followed by a sharp decline in prices and years of stagnation. Prices in Miami-Dade County doubled in the five years to 1981 before falling a total of 14.0% in 1982 and 1983. Prices declined an additional 3% through 1986 and did not match 1981 levels for the next 12 years. During the same period, price appreciation was much more moderate in Broward County. The Broward condominium index rose by 42.6% in the five years to 1981 before falling by 1.2% in 1983 and 1984.

An analysis of home prices based on other data sources reveals even greater levels of price appreciation. Pre-sales prices, a statistic that is not easily tracked, have been pushed to high levels in some projects marketed heavily to speculative investors. Anecdotes of prices doubling in luxury high-rises over the course of a year or less are common.

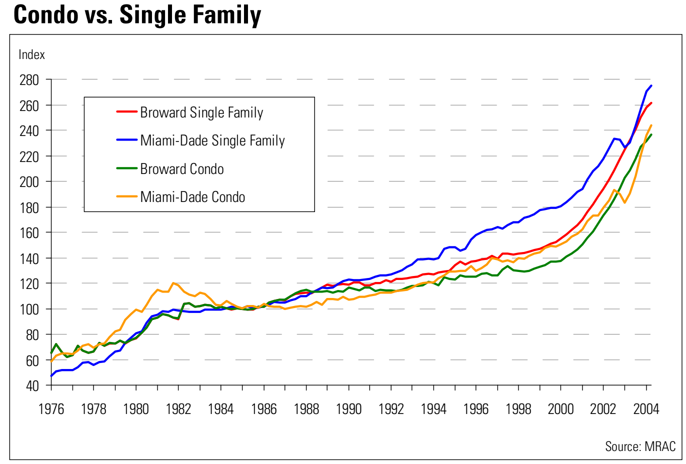
Condominium Prices
South Florida vs. Rest of Country



Condo Prices: South Florida vs. Rest of Country
% Change Yr/Yr



South Florida Home Prices
Condo vs. Single Family



The National Association of Realtors (NAR) does not track condominium prices at the local level, but its data for existing single family home sales in South Florida shows prices growing more rapidly than reported by MRAC. NAR, which collects data from all sales on the regional multiple listing service, reports single family home prices in Miami-Dade and Palm Beach Counties rising by 25.9% in the twelve months to June 2004. Price appreciation in Broward County during the same period of time was only slightly lower, at 24.8%. For all condominiums in the Southern United States (an area including Florida, 15 other states and the District of Columbia), NAR reports prices rising by 24.6% between the second quarters of 2003 and 2004.

Sources of Demand and Buyer Profiles

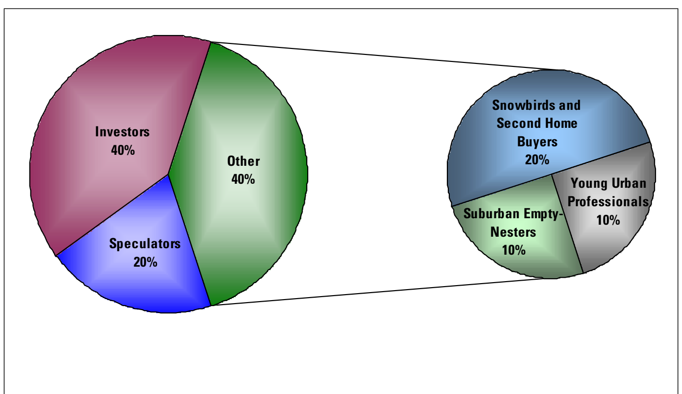
Through interviews with developers, appraisers, consultants and brokers in the South Florida market, RCG has generated an analysis of buyer profiles and sources of condominium demand. Approximately 60% of buyers of new condominiums and condominium conversions are either investors or speculators and the remaining buyers are individuals purchasing units as primary or secondary residences. Of the 60% of buyers who are not owner-users, approximately one-third are pure speculators intending to flip their units and two-thirds are more stable investors who are probably capable of holding the unit for an extended period of time.

Of those purchasing the units for personal use, approximately half are either snowbirds or second-home buyers intending to use the unit either year-round or as a vacation residence. Approximately 25% of owner-users are empty-nesters trading from single family homes in suburban South Florida to low-maintenance condos. The remaining 25% of owner-users are young professionals and two-income childless couples who are attracted to the amenities and convenience of urban condominiums.

As in much of the rest of the country, the current condominium development in the area is being targeted towards a few specific groups of buyers. Along the **beaches**, most of the projects are targeted towards snowbirds: wealthy retirees and second-home buyers from the Northeast and Midwest.

In the **outlying downtown areas**, including downtown Fort Lauderdale, downtown West Palm Beach, downtown Dadeland in Kendall, and others, the presumed buyers are local empty nesters and childless two-income couples who want to move from large suburban homes to low-maintenance condos in vibrant, walkable communities. However, it remains to be seen whether demand among this group for this type of development is sustainable. Although interest seems to be high at this point, high-density residential is a new product in the traditionally low-density, automobile-oriented suburban communities of Southern Florida.

Buyer Profiles



Source: RCG

The blighted areas of **Central Miami**, including downtown, the Arts District, and Edgewater, are gaining new interest from both developers and buyers. From in-flight magazines and hotel television stations, to billboards and national-circulation magazines, advertising for these new projects is significant and is mostly targeted to a young, hip buyer. As almost none of these projects have yet to be completed and developers are generally reluctant to reveal demographic information on their buyers, it is hard to get data on demand from this demographic. It is possible that the sleek architecture of the buildings and the format of the marketing is designed more to appeal to speculative investors than to the purported target audience. If the perception among investors is that this type of sleek, ultra-modern product is in high demand by young and upwardly mobile buyers, market participants say that it would make sense for developers to exploit this market.

Speculative Investment

The Downtown Development Authority of Miami attempted to commission a survey of residential developers in the Brickell area, but found that the majority of respondents reported close to 100% of units to be lived in, while in reality it is clear to those in the market that many of the units are being held by investors. In many developers' sales offices the buyer has little or no choice of finishes in the unit, leading some market observers to speculate that the bulk of buyers will never live in the building and have little interest in the interior details. Most developers are simply happy to accept a down payment and secure a contract. The Related Group, for example, keeps a database of buyers at all of its projects to track the activity of investors, but does not strictly preclude buyers from purchasing multiple units.

Local researchers and those familiar with the South Florida real estate market estimate that as many as 70% of all condominium buyers in South Florida are investors. More conservative estimates place the rate around 50%, with the rate being higher in some submarkets and much lower in other submarkets. RCG estimates that approximately 60% of all buyers are speculators or investors, with that number being higher in central Miami and Brickell Avenue and somewhat lower in Broward and Palm Beach counties. In downtown Fort Lauderdale, for example, a survey by the Fort Lauderdale Downtown Development Authority found that approximately 70% of buyers of downtown Fort Lauderdale condos are from Western Broward County. It is thought that most of those people are choosing to move to these units as a lifestyle change.

It is clear, however, that speculative buyers have been an important driving force in the current condominium boom. **Foreign investors**, some of whom intend to flip the units as prices appreciate, have fueled Miami condominium sales. However, many investors from Latin America are investing in Miami condominiums for second homes and as a long-term safe haven for investment capital. Brokers and developers report that 50% or more of buyers in some projects hail from South America. Although some developers now claim not to sell to investors and go so far as to have visitors to their sales centers fill out forms asserting that they are not speculators, many more developers are actively courting the market. Development companies hire real estate agencies to specifically market properties through brokers in Colombia, Venezuela, Brazil, Mexico and, to a lesser extent, Chile.

One project in downtown Miami, The Everglades on the Bay, is being developed by a subsidiary of the largest developer in Mexico, GISCA. Market participants report that the first tower of the building was largely pre-sold in Mexico before sales ever began in the United States. The company has five international projects in its portfolio, all of which are luxury condominiums in Miami-Dade County.

For developers who do not have such intimate ties to Latin America, a group of **international brokers** specializes in matching foreign investors with developers in South Florida. The most prominent of these brokers is the International Sales Group (ISG). The Director of Latin American Marketing and Sales at the company is also the president of Uruguay's largest residential development company. Companies like Lennar Corporation hire ISG to activate networks of brokers to sell to investors primarily from Colombia, Mexico, and Venezuela. The majority of sales are in luxury high-rise buildings located on the beachfront.

Latin American Investors are particularly interested in South Florida real estate because it is a familiar market and is perceived to be a safe haven for capital. Miami is known as one of premier Latin American financial, trade, and cultural centers. With 29% of visitors to Miami coming from Latin America, most wealthy Latin Americans have been to the city at some point and many have relatives there. Real Estate prices are also lower in the area than in other internationally recognized markets such as New York or London. In recent years, weakness in Latin American economies has coincided with capital flows to South Florida condominium markets. Weak GDP growth in Mexico from 2001 through 2003 and significant declines in Argentina (2001 and 2002) and Venezuela (2002 and 2003) made investing in those countries more undesirable during the past three years.

Demographic Profile of Current Condominium Owners

Single people, couples without children, and retired people are more likely to live in condominiums in South Florida than are any other groups. On average, households residing in condominiums have a lower income than do those living in single family homes, but that income is divided amongst fewer people in each household.

While the numbers of single family homeowners peak in the 35-44 year old age bracket and steadily decline in older age brackets, the total number of condominium owners is highest in the **oldest age brackets**. Among very young homeowners age 25 or less, 19% choose to purchase a condominium in a complex with 20 or more units. Proportionally fewer homeowners between the ages of 25 and 54 years old reside in condominiums, as families in the area strongly prefer single family homes to condominiums. Only 7.5% of people in that age range choose to own a condominium. As householders grow older and children move out, more and more choose the convenience and safety of condominiums. Almost 13% of homeowners 55-64 and 23% of those between the ages of 65 and 74 live in condos. Fully 40% of South Floridian homeowners over the age of 75 years elect for condominium housing.

Regardless of age, **people living alone** are far more likely to live in condominiums than those living with a partner, family or roommate. Approximately 34% of one-person home-owning households live in condominiums. Two-person home-owning households, the majority of which are couples, are less likely to live in a condominium, but approximately one out of five do. Fewer than 4% of home-owning households with three or more people live in condominiums, reflecting the clear preference of South Florida families to live in single family homes.

As of the 2000 Census, the average **household income** of condominium owners was below the average for South Florida as a whole. Interestingly, condominium owners between the ages of 15 and 24 years reported higher incomes than condominium owners as a group. People in that age range who are able to afford a home are more likely than average to buy a condominium and are likely to be amongst the highest income brackets in their cohort group. Among this group average condominium owners' household incomes were 20% lower than those of single family homeowners. The gap grew in the 35-64 year old age bracket, in which condominium dwellers made on average 31% less than single family homeowners. The gap narrowed considerably among older homeowners, with condominium owners 65 years and older earning only 13% less than their single-family home-owning counterparts. On average, condominium households earned $48,400 per year compared with $65,300 for single family households.

In comparing the existing condominium owner profiles for the three South Florida Counties, clear demographic **differences by location** are revealed. Younger owners and families are more likely to buy condominiums in Miami-Dade County than in Broward and Palm Beach counties. The concentration of condominium dwellers shifts towards Broward County in the 55 and over age bracket, with Palm Beach County also attracting more elderly residents. Incomes are uniformly highest in Palm Beach County for residents of all unit types.

The average household income for condominium owners in Palm Beach County was approximately $62,000 at the time of the 2002 Census, lower than single family home owner incomes in Broward and Palm Beach Counties, but slightly higher than incomes of single family home owners in Miami-Dade. Average incomes in Miami-Dade County were approximately $54,000 or 90% of single family homeowner incomes, making that county the place with the smallest gap between condominium owner incomes and single family homeowner incomes. In Palm Beach, condominium owners earned 84% of what their single family counterparts earned; in Broward the rate fell to 59%. Condominium owners' incomes were lowest in Broward County, averaging approximately $39,000 per year in 2000.

Per Capita Income by County and Place

2000 Census (1999 Dollars)

Miami-Dade County	**$18,497**		
Aventura	$41,092	Miami	$15,128
Bal Harbour	$67,680	Miami Beach	$27,853
Bay Harbor Islands	$29,261	North Bay	$21,017
Biscayne Park	$22,923	North Miami	$14,581
Coral Gables	$46,163	North Miami Beach	$14,699
Doral	$27,705	South Miami	$24,526
Fisher Island	$236,238	Sunny Isles Beach	$27,576
Fountainbleau	$14,716	Sunset	$23,735
Kendall	$27,914	Surfside	$38,375
Key Biscayne	$54,213		

Broward County	**$23,170**	**Palm Beach County**	**$28,801**
Dania Beach	$20,795	Boca Raton	$45,628
Deerfield Beach	$23,296	Boynton Beach	$22,573
Fort Lauderdale	$27,798	Delray Beach	$29,350
Hallandale	$22,464	Lantana	$21,204
Hollywood	$22,097	North Palm Beach	$39,564
Lauderdale-by-the-Sea	$34,216	Palm Beach	$109,219
Miramar	$18,462	Palm Beach Gardens	$42,975
Pembroke Pines	$23,843	Tequesta	$34,974
Pompano Beach	$23,938	Wellington	$30,726
Sunrise	$18,713	West Palm Beach	$23,188

Sources: U.S. Census Bureau, RCG

Historical Trend Towards Condominium Development

The development of large-scale luxury condominium towers along the Beaches and in the Brickell Avenue area has been taking place for several decades. Since the 1960s, significant new condominium development has provided dense housing stock for second-home buyers and retirees, many from the Northeastern United States. Luxury high-rise condominiums are not an untested product in South Florida. Drive along the Beaches from Key Biscayne north to Palm Beach County and you will come across hundreds of residential towers built to appeal to wealthy buyers. In fact, 46% of the current high-rise condominium stock at the time of the 2000 census was built during the 1970s.

Much of the current development in Southern Florida is an extension of these previous trends. Additional units on the barrier islands and in the Brickell Avenue area are filling in the remaining developable space in areas where condominium living is established. While deliveries of new units are expected to peak in 2005-2007 in most areas, in Miami Beach, the peak came at the end of 2003. In South Beach, few opportunities for high profile high-rise developments exist. The majority of activity is shifting from new development to the conversion of existing apartment units to condominium units. The City of Miami Beach reported a 6% drop in total housing stock between 1990 and 2000 as rental units were consolidated for conversion into for-sale housing.

However, as the supply of developable land becomes increasingly constrained throughout Southern Florida, developers have begun building residential condominiums in a variety of other unproven markets. In Fort Lauderdale and Miami, tens of thousands of units are being built or planned in urban cores where residential stock has never before existed. In the downtown Miami area, including the CBD, Biscayne Boulevard, Edgewater, the Arts District and Midtown Miami, thousands of high-rise luxury condos are being built in blighted areas. Condominium development is also taking root in suburban areas formerly home to strip malls and sprawling single family communities.

Among cities with the highest concentration of condominium units, the City of West Palm Beach ranks second nationally with condominiums accounting for 34.5% of all housing units. The city of Ft. Lauderdale ranks third, with 33.2% condominium units. Miami, the only major city to make the list, ranks sixth with 20.2% condominium units. At the county level, condos account for approximately 16% of all residential units in Palm Beach County, 18% in Broward and 11% in Miami-Dade counties. By comparison, condos make up 4% of all residences nationally. Although residential condominiums are well established in South Florida, the translation of this product type to the urban cores of Miami, Fort Lauderdale and Palm Beach and the rise of the condominium hotel product type are new developments.

Condos as a Percentage of Total Housing Units

Rank	City	Condo Units	% of all Units
1	Naples, FL	35,064	37.2%
2	W. Palm Beach, FL	159,288	34.5%
3	Ft. Lauderdale, FL	208,570	33.2%
4	Honolulu, HI	66,264	23.5%
5	Myrtle Beach, SC	19,231	21.4%
6	Miami, FL	139,565	20.2%
7	Sarasota, FL	53,364	19.6%
8	Fort Myers, FL	36,484	19.3%
9	Ft. Pierce, FL	23,527	18.4%
10	Orlando, FL	138,663	15.8%

Source: US Census Bureau, Broward County, Claritas

RCG expects condominiums will gain market share as new single family home development slows in response to the dwindling supply of developable land. Even as home prices have appreciated rapidly and resales volumes have accelerated, the limited supply of vacant land has slowed new home sales.

Land Supply

The density of both population and existing residential development in South Florida will put pressure on the area to build high-density housing to accommodate both the current population and future growth in the area. The South Florida area is one of the densest both in terms of population and housing units per square mile. The geography of the area, sandwiched between the Atlantic Ocean to the East and South and the Everglades to the West puts further constraints on the area's lateral growth. Miami-Ft Lauderdale-West Palm Beach ranks 14th among the most densely populated Consolidated Metropolitan Areas in the United States. However, much of the land area in the Tri-Counties is located within the Everglades and is sparsely populated and largely undevelopable.

Fully 41% of Miami-Dade County's land area is located within the boundaries of the Everglades National Park and an additional 16% of the land area is located within the South Florida Water Management District's Water Conservation Impoundment Area. Similarly, Broward County has a total area of 1,211 square

Population Density

(Thousands)

Rank	Metropolitan Area	Density (Pop./sq mile)
1	New York-Newark-Edison, NY-NJ-PA	2,836
2	Los Angeles-Long Beach-Santa Ana, Ca	2,620
3	**Miami-Ft. Lauderdale-W. Palm Beach, FL (excl. Everglades)**	**2,040**
4	San Francisco-Oakland-Fremont, CA	1,712
5	Chicago-Naperville-Joliet, IL-IN-WI	1,654
6	Trenton-Ewing, NJ	1,580
7	Honolulu, HI	1,474
8	New Haven-Milford, CT	1,400
9	San Jose, CA	1,348
10	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1,325
11	Detroit-Warren-Livonia, MI	1,142
12	Providence-New Bedford-Fall River, RI-MA	1,040
13	Milwaukee-Waukesha-West Allis, WI	1,031
14	Miami-Ft. Lauderdale-W. Palm Beach, FL	1,006
15	Baltimore-Towson, MD	996
16	Tampa-St. Petersburg-Clearwater, FL	971

Source: US Census Bureau, Broward County, Claritas

miles, 34% or 410 square miles of which are located to the east of the county's Conservation Area. In Palm Beach County, Loxahatchee Wildlife Refuge, Lake Okeechobee, and the county's Urban Service Boundary put pressure on sprawl.

By removing undevelopable land from the density equation, Miami-Fort Lauderdale-West Palm Beach becomes the third densest Consolidated Metropolitan Area in terms of population per square mile. Excluding the Everglades, the area has 2,040 residents per square mile, fewer only than the Los Angeles and New York areas, with 2,620 and 2,840 residents per square mile, respectively.

Zooming in to the place level, 38 of the 50 densest places in Florida are located in Miami-Dade, Broward or Palm Beach counties. Nine of the top ten places by housing per square mile of land are located in South Florida. These are places where new housing must rise vertically as developable land is scarce. In the city of Sunny Isles Beach, the place with the highest housing density in the state, there were 12,875 housing units per square mile of developable land at the time of the 2000 Census. Since that time, more than 700 additional units high-rise condominium units have been added in the area and close to 1,400 more are currently under construction. Miami Beach, North Bay Village, Bal Harbor, Surfside, Aventura, and Bay Harbor Islands, the other Beach towns in Dade County, have an average density of more than 8,300 housing units per square mile. In contrast, the city of San Francisco had 7,421 housing units per square mile, New York City had a density of 10,553 and Manhattan registered 34,757 units per square mile at the time of the 2000 Census.

Broward County as a whole registered 614.8 housing units per square mile of land at the time of the 2000 Census, second only to Tampa Bay-area Pinellas County in Florida. Miami-Dade had 437.9 housing units per square mile of land and Palm Beach County, still the most undeveloped of the three, had 281.9 housing units per square mile of land. Unlike Pinellas County, however, much of the land space in Broward and Dade Counties is located to the West of the development boundaries dividing urban space from the Everglades.

The same geographic constraints that have contributed to that level of density will limit outward expansion in the future. As of 2001, Miami-Dade County identified 26.8 square miles (17,000 acres) of developable vacant land within its boundaries. Of the total land area (1965 square miles) in Miami-Dade County, urban growth is permitted in 417.4 square miles within the Urban Development Boundary. Plans call for an additional 14.8 square miles of land to be added to this urban area by 2015. The majority of this land is located in outlying areas at the edge of the Urban Development Boundary in the western part of the county and, especially, in Southern Miami-Dade County. Highway and public transportation access to these areas is difficult at best.

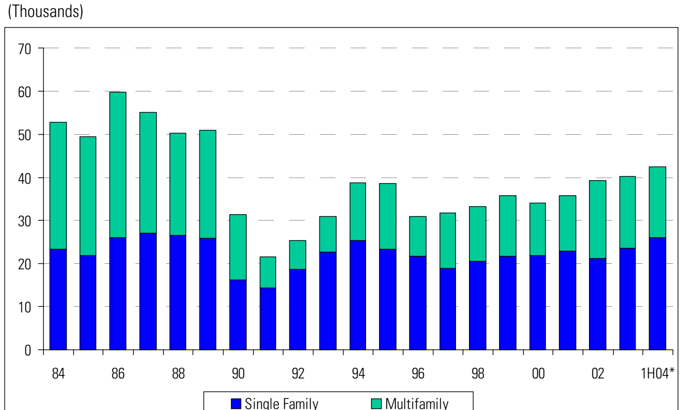
The area's steadily expanding population will quickly put pressure on the limited amount of available land. RCG expects the resident population of South Florida to grow by 4.7% between 2003 and 2006 and to grow further in the future. We expect 248,000 new residents to move to the area in the three years to 2006. Additionally, further demand will be created by the continued growth in the tourism industry and from snowbirds and second-home buyers.

Permits on the Rise

The combined total number of multifamily permits issued in the Miami, Fort Lauderdale, and West Palm Beach MSAs reached 8,233 in the first half of 2004, up 6.3% from the same period a year ago. Multifamily permits totaled 16,800 in 2003 and 18,100 in 2002, up from an average of 11,500 units per year in the 1990s. Significantly, the majority of multifamily units currently under way are for sale-condominiums. Therefore, while total multifamily construction is not as high as it was in much of the 1980s, the total number of condominiums is relatively higher.

South Florida Residential Permits Issued

(Thousands)



*YTD Annualized

Source: Census, RCG

New condominium sales are probably a better indicator of the level of activity in the condominium market than multifamily permits. New condominium sales rose to 2,883 in the first quarter of 2004, a 23.3% increase from the same period a year ago. In 2003, the total number of new condominiums deeded reached 10,641 units, up 31.0% from 8,100 in 2002 and significantly above the annual average of 6,400 between 1995 and 2001. Furthermore, much of the activity in the market is not reflected in these numbers as pre-construction sales are legal contracts to buy as opposed to finalized deeds of sale and are not included in new condominium sales data. These numbers may accelerate as the bulk of new buildings come online in the next two to three years and buyers are asked to close on units contracted for during pre-construction sales.

By most estimates, at least 35,000 new high-rise condominium units are scheduled for delivery through 2007. If all of the currently planned and proposed projects reach completion, the number would be significantly higher.

Miami

Much of the current building activity is taking place in a few key submarkets. In Miami, the majority of major high-rise projects are located in the Brickell Avenue, Downtown, and the Edgewater areas. In Central Miami, more than 25,000 units are currently proposed or under construction. As of July 2004, construction was active on more than 7,000 of those units. The majority of the remaining units are scheduled to break ground in late 2004 or 2005.

Brickell Avenue

In the Brickell Area, almost 2,900 units are currently under construction and more than 3,600 additional units are planned. This level of activity is a significant increase from the construction recorded in recent years, but is not unlike the activity seen in the area in the 1980s and early 1990s. Although a total of over 10,000 units have been developed in the area since 1980, only 2,065 condominium units and 174 condominium hotel units came online in Brickell north of SW 15th Road between 1995 and July 2004. The Related Group of Florida is the largest developer of high-rise residential projects in the Miami area. The developer's Plaza on Brickell is set to break ground in 2004. The project will include two residential towers and an entertainment plaza with restaurants, bars, and gardens. The two towers are to be completed simultaneously, delivering 1,000 new condominium units to the market in 2006. The average sales price will be below $300,000. Nearby, developer Tibor Hollo has submitted an application to amend his permit for Villa Magna, a 67-story tower on Brickell Bay Drive. The new plans call for two 57-story towers with 1,200 condominium units. The project is located two blocks from the recently completed 70-story Four Seasons Hotel and Tower. Villa Magna would be located immediately adjacent to Swire Group's 340-unit Jade at Brickell Bay, a 48-story project currently under construction for delivery in 2004. On Brickell Key, Swire is currently building Carbonell, a 40-story, 284-unit condominium tower.

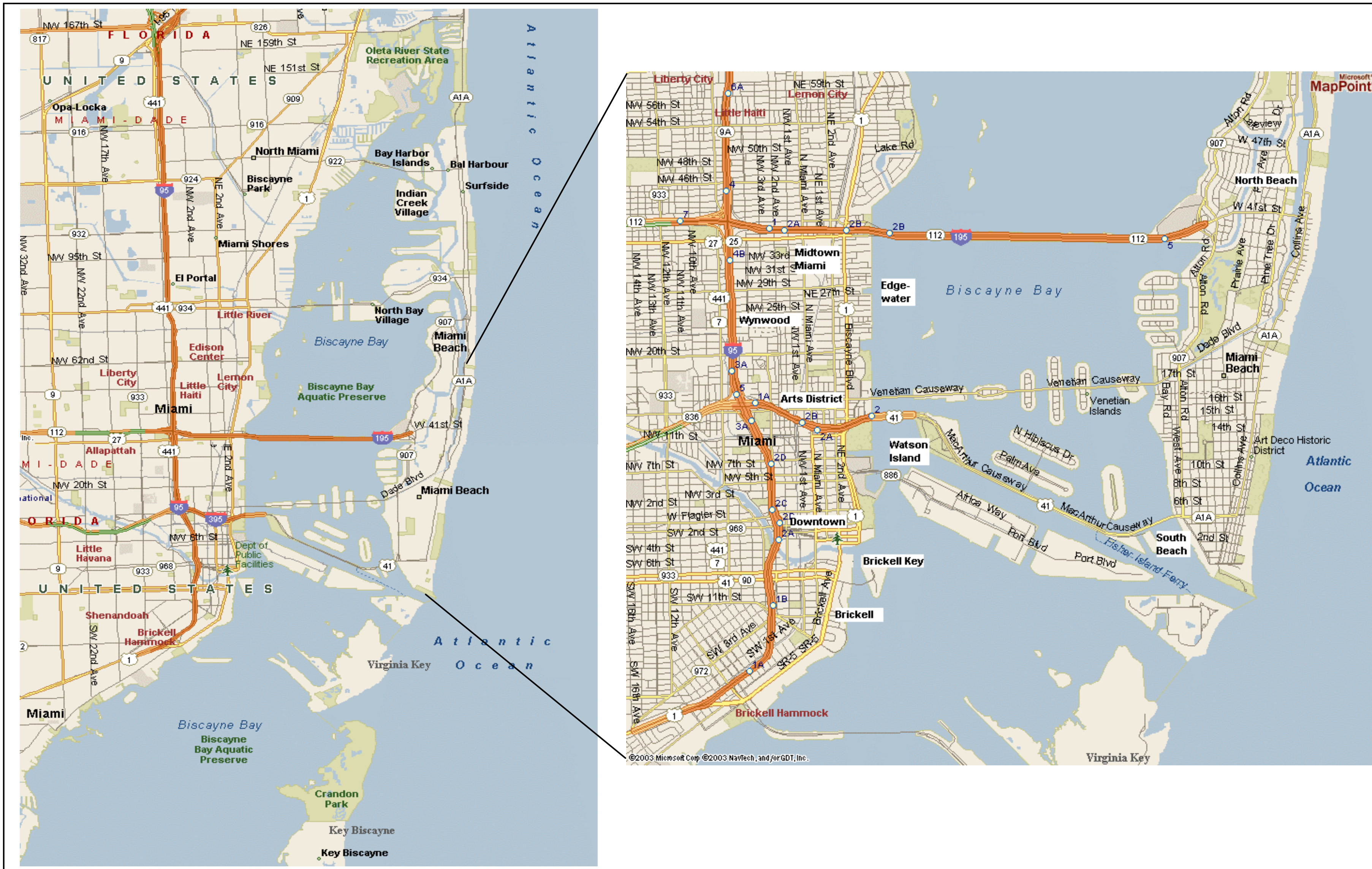
Miami River

The Miami River runs between the Brickell area and the CBD and has historically been a largely industrial area. Although the accelerating residential development in the area is meeting resistance from advocates of local industry, a growing number of projects are revitalizing the area. Unlike the New River in Fort Lauderdale, the Miami River is still primarily used for industrial purposes, although one 199-unit condominium project on the river was completed in 2003. Construction is currently underway on the 384-unit, 43-story Brickell on the River condominiums, and almost 4,200 additional units are planned. Almost 70% of those units would be in the Riverfront East and West developments on the North side of the river. Lissette Calderon pioneered development along the river with two loft-style projects. She broke ground in June on the second of the two developments in the area, NeoVertika. When completed, the $80 million project will have 443 loft-condominiums in a 36-story tower. Her $27.5 million Neo Lofts were more than 90% sold when they opened in 2003.

Downtown and Biscayne Boulevard

Across the river in the Downtown and Biscayne Boulevard areas, activity has been slower. As of August 2004, approximately 1,200 units were under construction with an additional 5,350 planned. At the mouth of the river, construction on Ugo Colombo's two-tower project replacing the run-down Dupont Center could begin in early 2005. The project, which includes 694 condominium -hotel units and 596 traditional condominium units, would be linked to the Hyatt Regency Miami Hotel and the One Miami condos with a proposed riverfront walkway. The Related Group's $240 million One Miami's 896 condos are mostly presold, long before the projected completion in 2005. Across the street from the Dupont is the planned Metropolitan Miami (MET) project. MDM Development Group's $600 million project will include a 1,500 space parking garage, three condominium towers, and 200,000 square feet of retail and entertainment space. The six-acre, $600 million development will occupy three city blocks and contain 1,347 residential units. In May, the developer announced that the Met Square retail component of the development would include a Whole Foods market in addition to a multiplex cinema. Construction of the first tower is planned for August 2004. The Related Group has announced plans for The Loft II, a 500-unit, $85 million project downtown. The unique 35-story affordable housing project will span the Metromover rail line. The units will start in the low-$100,000s and range to about $190,000. Netscape founder Jim Clark's Hyperion Development Group plans to have five condominium projects underway at any one time. Blue, the company's 330 unit, $110 million tower is currently under construction on Biscayne Boulevard near the Julia Tuttle Causeway. The company's proposed $266 million 516-unit condominium project called Mist would be located farther south on Biscayne Boule-

Miami-Dade County



vard, across from American Airlines Arena. The company also plans to build 408 units in a 57-story tower on Biscayne Boulevard near the Performing Arts Center. Next door to Mist, Gregg Covin's Ten Museum Park is currently under construction. More than 90% of the project's condominiums sold before its sales office opened. The $85 million project is scheduled for completion in 2006.

Edgewater, Wynwood, and Arts District

Farther north, activity in the Edgewater, Wynwood, and Arts District areas is perhaps the most striking example of the current condominium boom. In a previously neglected area, approximately 7,700 new high-rise units for delivery in the next few years are either under construction or in the planning stages. The activity is clustered around the new Cesar Pelli-designed Performing Arts Center, along Bayshore Boulevard, and at Midtown Miami, the $1 billion redevelopment of Florida East Coast Railway's shipping yards. At Midtown Miami alone, approximately 3,000 new condominium units are planned. Work on the new Performing Arts Center has served as a catalyst for development in the Arts District. Developers have been snatching up land in the area and many new projects are in the planning stage. MCZ/Centrum purchased the Village on Bayshore Boulevard and converted the project from rentals to a condominium project called Cité. Construction on the $90 million, 435-unit project is nearing completion.

Beach Communities and Barrier Islands

Besides the urban core of Miami, much of the additional activity is currently focused on the Beach Communities along the Barrier Islands and in downtown Fort Lauderdale and downtown West Palm Beach. However, the limited supply of land and restrictions on development on the hurricane-exposed Barrier Islands will make the Beach communities fundamentally supply-constrained through the longer term.

Miami Beach

In Miami Beach, high-rise development in South Beach peaked during 2003 and is nearing an end. Although more than 1,000 luxury high-rise units were under construction in July 2004, only 300 more are planned, and it is highly unlikely that any other major projects will be allowed. Out of a total of 59,000 residential units in the city, only 5,200 are single family homes. Strong demand from Latin America and the Northeast as well as from within Dade County and the dwindling new supply in South Beach have pushed developers to start building in North Beach, a quieter and historically less-desirable area. Approximately 1,400 units are under construction and an additional 1,100 condominium units are planned for the area. Groundbreaking on a spa-hotel-condominium project on six acres of Miami Beach oceanfront is scheduled for later this year. The developer, Miami-based WSG, plans 151 condo-hotel suites and 467 condominiums in three towers to be known as The Sky. The spa will be located in the former Carillon Hotel, which is under rehabilitation. The price range of the condominiums is set between $400,000 and $3 million.

Sunny Isles Beach

Immediately to the North of Miami Beach, Sunny Isles Beach is undergoing a transformation from a stretch of budget beach motels to a center of high-rise development. The city's large parks, expansive beaches and suburban lifestyle appeal to buyers indifferent to Miami Beach's density and fast pace. Developers have been attracted to the area by the relative lack of restriction on new construction. The city currently has approximately 2,000 condominium units, and approximately 1,200 condominium units and 200 hotel condominium units were under construction as of July 2004. An additional 700 units have been proposed. Among the notable projects currently under construction are Donald Trump's two condominium towers and the 332-unit La Perla condominium.

Aventura

Aventura has been another center for luxury high-rise development and has an abundance of condos in the $1 million and greater price range. Clusters of premium condominium towers with resort-style amenities are targeted towards a large community of New York-based buyers. Turnberry Associates began developing the Aventura area 35 years ago and has completed the Turnberry Isle Resort and the Aventura Mall. As of July 2004, the company had almost 800 units under construction in the area. While many of the high-end projects have completely sold out, The Turnberry on the Green, with prices from $300,000 to more than $550,000, was only 60% sold as of July 2004, almost 18 months after it was completed. The Related Group of Florida has also been active in the area and representatives from the company report that the projects are almost 100% sold. The Aventura Marina is a luxury high-rise project of 378 units starting at $400,000, while The Venture is a smaller project targeted towards less affluent buyers, with prices starting at $150,000.

Broward County

Although the three counties in South Florida essentially operate as a single economy and the boundaries between each are largely indistinguishable, it is possible to make distinctions between development activities in each county. In Broward County, luxury high-rise condominium development has exploded in much the same was as it has in Miami-Dade County. However, the Broward submarkets have personalities unique from the

Broward County

cosmopolitan chaos of their neighbors to the south. As such, Broward attracts a different profile of buyer than that in Dade County, and development activity, while proceeding at a rapid pace, has not reached the levels seen in Miami and its suburbs.

Downtown Fort Lauderdale

The bulk of activity in Broward County is currently focused in Fort Lauderdale, both downtown and on Fort Lauderdale Beach. At least 16 high-rise towers are currently underway in the city. Downtown Fort Lauderdale is a more established urban core than Kendall or the other suburban markets, with a concentration of retail, entertainment, cultural institutions and offices. Residential development in the area, while a recent phenomenon, is the final aspect of a 25-year city plan to create a vital 24-hour downtown area. Eventually, plans call for up to 15,000 additional residential units in the downtown area. As of July 2004, one major luxury high-rise project had been completed and three more were under construction. Two projects were completed earlier in 2004. The Watergarden, a 315-unit tower, was completed in early 2004 with 100% of units sold during pre-construction sales. As of July 2004, 50 of those units were available on the resale market. The 350-unit Esplanade Tower also opened after having fully sold during pre-sales. Las Olas Riverhouse and Las Olas Grand, both under construction and scheduled for completion by year-end 2004, will bring an additional 540 units online, many costing more than $1 million. In addition, the work has begun to redevelop the Flagler district just north of downtown, adding thousands of apartments and loft-style condominiums. The condominium buyer profile in this area is more similar to that in the new mixed-use projects in the suburban submarkets than to the buyers in downtown Miami or Miami Beach. According to a survey by the Fort Lauderdale Downtown Development Authority, approximately 70% of buyers in the area are from Western Broward County.

Fort Lauderdale Beach

Fort Lauderdale Beach is another site of major development, especially that of condominium hotel units. Historically, tourists who choose to buy a permanent residence in the area have driven much of the demand in the area. Starwood's W Hotel chain recently announced that it is building 170 condominium hotel units and 500 hotel rooms in a new project along the beach. The 333-unit Q Club Resort and Residences is currently under construction and scheduled to open in early 2006. Earlier in the year, The Atlantic opened with 124 condominium hotel units. Similar to Miami Beach, Fort Lauderdale Beach is located on a Barrier Island and has a limited supply of developable land.

Hollywood, Hallandale, Pompano Beach, and Deerfield Beach are other areas of significant amounts of new development, albeit none of it of the same intensity as the activity in Fort Lauderdale.

Palm Beach County

Palm Beach County has more available land for Greenfield development. Still, the amount of developable land is dwindling and land prices are accelerating in the area. A few large landholders, including WCI Communities, Toll Brothers, Lennar Homes, and Taylor Woodrow control much of the vacant land, most of it in the northern part of the county. Strict growth rules in Martin County to the north add further pressure to supply in Palm Beach County. Additionally, locations along the coast and in central West Palm Beach and Boca Raton, among other eastern cities, are in high demand. Condominium development has accelerated rapidly in recent years. In West Palm Beach, approximately 3,500 condominium units were being built or planned as of August 2004. In the fifteen months to August 2004, The Related Group sold 650 units valued at more than $190 million in West Palm Beach. As in Broward and Miami-Dade Counties, a slew of new projects are being built or planned along the beaches as well as in established central neighborhoods. HomeDevco is building the 166-unit The Landmark at the Gardens in Palm Beach Gardens with prices ranging from $400,000 for two bedroom units to more than $3 million for four bedroom, five-and-one-half bathroom units.

Suburban South Florida

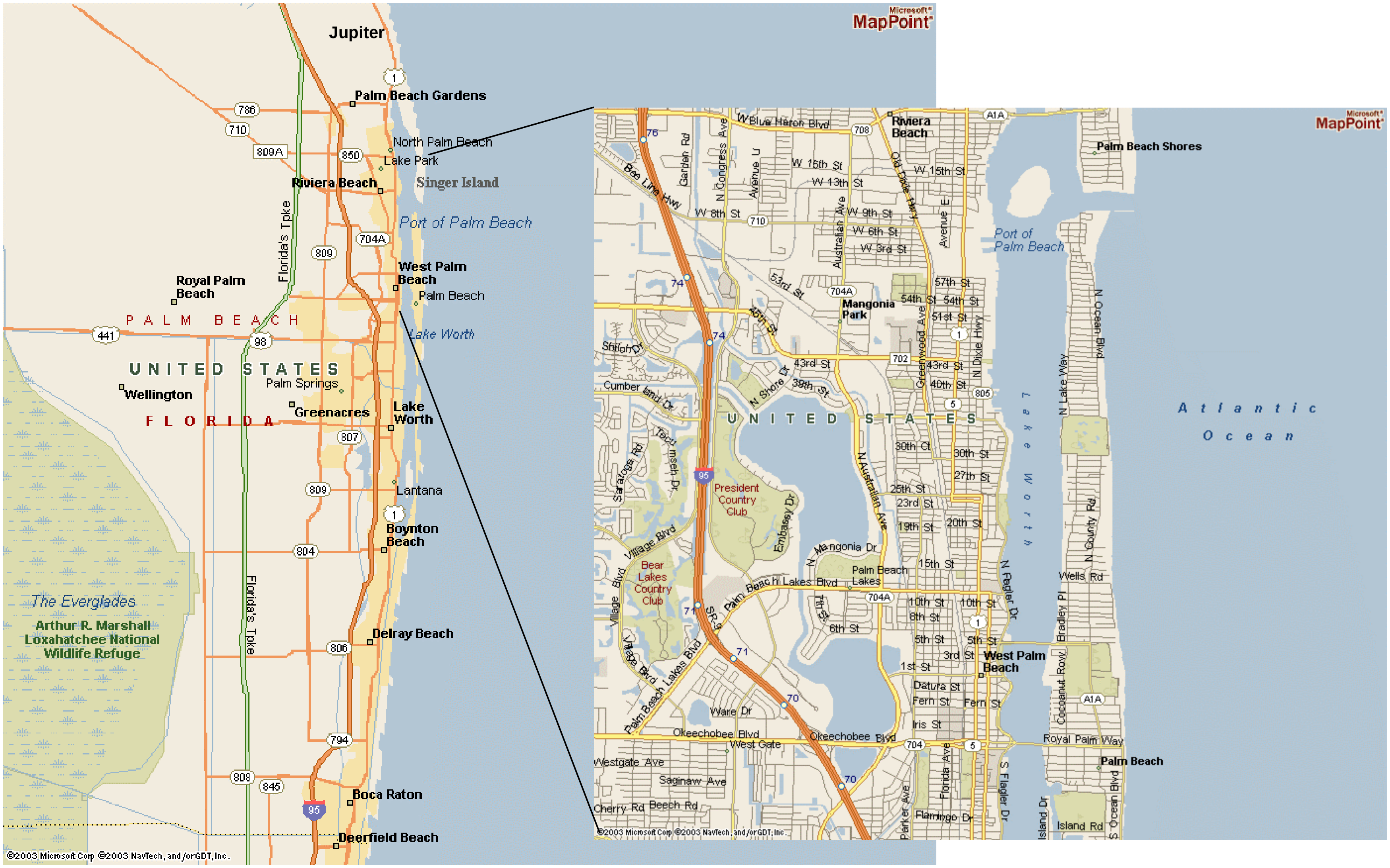
To the west of the urban cores in the suburbs, suburban sprawl has reached the urban growth boundary at the edge of the Everglades, and the supply of developable greenfields is increasingly constrained. As such, developers are turning to infill sites to accommodate demand for suburban housing. Mixed-use and transit-oriented town-center development is beginning to replace traditional master-planned communities. Developers such as Lennar Corporation, once focused entirely on single-family home building, are building town homes, zero-lot line homes, and residential condominiums in master-planned communities and on infill sites.

Kendall

In central Kendall, across from Dadeland Mall, developers have responded to the 1999 designation of the area as a Metropolitan Urban Center, allowing higher density residential development in the area. In total, more than 1,500 units are currently under way, and long-term plans call for housing for 35,000 new residents in the area.

Dallas-based Fairfield Development is building Fairfield at Dadeland, a 396-unit 26-story project. Gulfside Development is currently building Downtown Dadeland, a mixed-use project with 416 residential condominiums on top of 125,000 square feet of retail and restaurant space. The developer reports that sales of the units, priced from the mid-$100,000 range to the low-

Palm Beach County



$500,000 range, have been strong, with almost 85% of units sold by August 2004. The Metropolis at Dadeland is a 200-unit project consisting of two 25-story towers with units ranging in price from $170,000 to more than $400,000. The project is being developed by Terra International Developments, a Chilean and Spanish group, and the first of the two towers is currently under construction.

Lennar Development Corporation is Miami-Dade County's largest homebuilder and has traditionally built single family and low-rise projects in suburban Miami. As land becomes scarcer and the area's population continues to expand, Lennar too has jumped into the condominium business. The company currently has four suburban condominium projects in the area. In Kendall, the company is building the $180 million 515-unit Colonnade and recently finished 71 units at The Grand.

Other Suburbs

Plans for urban, multi-use, walkable downtowns are also underway in **Weston**, **Miramar** and **Sunrise**. Of these, Codina Group's 65-acre Metropica project is one of the largest. When completed, the development would consist of 363 condos, seven restaurants, and 500,000 square feet of Class A office space surrounding a central plaza. The site is one of the last available sites of its size in Broward County. These developments are targeted primarily to empty nesters moving from subdivisions in the western parts of Broward and Dade counties and to other two-income, childless households.

Although demand for this type of housing among South Floridians accustomed to an automobile-centric lifestyle is still untested, the needs of a maturing population and the limited supply of developable land will likely support higher density development in the future.

Condominium Conversions

The high level of demand for residential condominiums and relative weakness in the rental market have encouraged a surge in the conversion of rental apartments to condominiums. As of July 2004, more than 10,000 condominium conversions were in the works. Rental apartments converted into condominiums currently account for about 20% of all new condominium sales. In the first half of 2004 alone, approximately 7,100 apartment units were sold to investors planning to convert the units to condos. The total value of those sales exceeded $1 billion.

Draper and Kramer of Chicago purchased the 334-unit Floridian apartment project in Miami Beach for $88.5 million, or about

Major Apartment Properties Sold for Condo Conversion, 2004

Sale Date	Property Name	City	Yr. Built	Units	Sale Price	$/Unit
Jun-04	Bay Club Tower	Aventura	1990	703	$142,500,000	$202,703
Jun-04	St. James Club	Boca Raton	1991	224	$34,900,000	$155,804
Mar-04	Villa del Sol	Boynton Beach	2003	312	$36,200,000	$116,026
May-04	Heron Cove	Coral Springs	1988	198	$16,100,000	$81,313
Jun-04	Tierra Verde	Delray Beach	2003	300	$41,200,000	$137,333
Feb-04	Bridgeside Place	Fort Lauderdale	2001	246	$58,100,000	$236,179
Mar-04	Presidential Towers (The Wave)	Hollywood	1968	551	$96,000,000	$174,229
Jun-04	Royal Palm Place at the Hammocks	Kendall	1990	377	$40,000,000	$106,101
Jun-04	Island Club at Brickell Key	Miami	1989	300	$59,500,000	$198,333
Jun-04	Village on Bayshore	Miami	2004	437	$75,000,000	$171,625
May-04	Dadeland Village	Miami	1960	410	$48,500,000	$118,293
Mar-04	Fontainebleau Park Apartments	Miami	1989	268	$23,200,000	$86,567
Mar-04	Dadeland Capri	Miami	1968	120	$14,000,000	$116,667
Jun-04	Mirador	Miami Beach	1965	1,300	$190,000,000	$146,154
Mar-04	Byron Hall	Miami Beach	1970	206	$30,000,000	$145,631
May-04	Villaggio	Miramar	2003	292	$43,450,000	$148,801
May-04	Porta Bellagio	Sunny Isles	2001	656	$119,500,000	$182,165
Feb-04	St Andrews at Palm Beach	West Palm Beach	1993	200	$19,600,000	$98,000
Total/Average:			**1985**	**7,100**	**$1,087,750,000**	**$153,204**

Sources: Real Capital Analytics

$265,000 per unit in February of 2004. The firm plans to convert the property, located on the desirable Biscayne Bay, into condominiums.

In the Biscayne Boulevard neighborhood, Midtown Equities and Samuel and Company are redeveloping the Banyan Bay Apartments into 347 condominiums. Midtown purchased the property, renamed Nirvana, in 2003 for more than $35 million; the sellout, after full conversion, should yield about $75 million.

The Roney Place Resort in Miami Beach has undergone $25 million in renovations since the current owners began condominium conversion in 1997. The Wyndham Bonaventure Resort is also being converted to condos. When completed in late 2005, the property will consist of 252 luxury condos and a 48,000 square foot spa. In an indication that interest in condominium conversions was strong through August 2004, ZOM USA sold the 111-unit The Waverly at Surfside for conversion to condos starting at a sales price of $240,000 for one-bedroom garden building units and $300,000 for oceanfront units.

Outlook and Conclusion

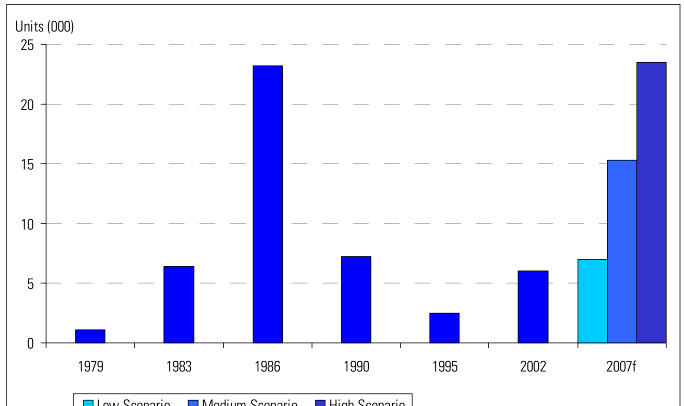
Outlook

Our risk outlook is for a decline in prices and building activity during the next three years, with the potential risk of a major downturn.

It is possible that current levels of development will lead to an overhang of residential supply. Although household formation will be strong in the area through the forecast horizon, with almost 90,000 new household formations during the next three years, strong demand may not be able to keep pace with the large amount of supply projected for delivery. Furthermore, it is possible that the bulk of this supply overhang will be seen in the new condominium market as happened in the 1980s.

If the majority of planned projects are completed, we predict an overhang of as many as 23,000 unoccupied newly constructed units by 2007. However, given the history of planned projections not being completed in the area, it is possible that fewer units than are expected will be delivered. In that scenario, the as few as 5,000-7,000 unoccupied newly constructed units would be on the market in 2007, an amount that is not out of line with historical norms and that could be absorbed in one year or less. Our mid-range projection has a surplus developing of approximately 15,000 unoccupied newly constructed units. As construction activity slows, positive net absorption could return to the market as soon as 2007, but, depending on the number of units delivered, it could take many years for excess inventory to be absorbed.

South Florida Supply Overhang Over Time
Newly Constructed Condominium Units Vacant for Sale



Source: US Census Bureau, RCG

Prices have also become overheated. Our analysis shows that condominium prices nationwide are at a premium compared with the long-term price appreciation trend, and are even more inflated in South Florida. Sales prices at mid-2004 had reached a 56% premium to the long term trend in Broward County and a 42% premium in Miami-Dade County, compared with a 30% premium in U.S. markets excluding Florida. As interest rates rise, investors reallocate assets to different types of investments, and supply overhangs lead to dwindling speculative demand, we expect price appreciation to come to a halt.

In our base scenario, prices are expected to decline by 15% during one to two years before stagnating for three to five years.

Outlook Scenarios:
South Florida Condominium Market

Condominium Value Premium to Long Term Price Trend :	
Dade County	*42%*
Broward County	*55%*
Nationally	*30%*

Contributing Factors to Premium:	
Interest Rates:	*Significant*
Speculation:	*Signficant*
Increased Investment Allocation to Real Estate:	*Significant*
Increased Density:	*Slight*

RCG Outlook Scenarios:	
Soft Landing (25%)	*5% Decline over 1-2 Years* *Stagnant Prices for 2-3Years*
Base (60%)	*15% Decline over 1-2 Years* *Stagnant Prices for 3-5Years*
Pessimistic (15%)	*25%-30% Decline over 2 Years* *Stagnant Prices for 5-10 Years*

Source: Rosen Consulting Group

If Latin American economies recover solidly, interest rates rise sharply, or geopolitical events cause a shock to the market, prices could fall as much as 25% to 30% by 2006 or 2007 and stagnate for five to ten years. Assuming no such shocks take place, it is possible that the South Florida condominium market could experience a soft landing in which prices dip slightly and stay stable at near-current levels for the next two to three years. If interest rates stay at historically low levels and local and international investors continue to have few better alternatives for their capital, this scenario could prevent a significant decline in the market.

It is important to note that certain projects and certain submarkets will likely be better positioned in the future than others. Some moderately priced projects could fare better if demand for mid-priced condominium units is more stable than high-end demand in the next few years. Certain luxury high-rises, particularly those in currently underdeveloped areas, could perform worse. Submarkets with less volume of activity and those conveniently located near employment centers may also fare better than those that are less appealing to working full-time residents and those with large numbers of new projects coming online simultaneously.

Conclusion

Looking forward, South Florida's increasingly diverse economy will benefit from its strong trade ties to Latin America, its importance as a tourist center, and its growing service sector. The relative affordability of the area and its high quality of life will attract businesses. Strong demographic trends do not show signs of slowing and will create steady demand for new housing. The combination of the area's tropical climate, existing tourist infrastructure, and convenient location at the intersection of the United States, the Caribbean, and Latin America will contribute to future strength in the tourism industry. Similarly, South Florida is expected to draw increasing numbers of second homebuyers and retirees as baby boomers age.

These positive economic and demographic trends and the limited supply of developable land will create a positive environment for condominium construction in the long term. Additionally, as established high-density residential nodes reach capacity, the revitalization of central neighborhoods and residential infill will be necessary to accommodate growth in demand. Suburban and urban downtowns and underutilized industrial areas will be prime areas for residential development.

However, the volume and intensity of current activity is a matter of concern. While it is possible that South Florida could support 25,000 to 30,000 new condominium units through 2007, it is unlikely that demand exists to absorb the projected new stock of as many as 50,000 units during the next three years. Depending on the number of current projects that reach completion, a large number of investors could put their units on the market at a time when rising interest rates are dampening consumer demand. In a better-case scenario, many currently planned projects will be canceled or postponed before construction begins, thereby limiting the number of units reaching the market during the next three years. RCG projects a supply overhang of 5,000 to 7,000 units in this scenario, rising to approximately 23,000 unoccupied newly constructed units by 2007 in our pessimistic scenario.

The rapid acceleration of prices is also a cause for concern. We believe that price appreciation in recent years has led to a premium in condominium values nationally, and the situation is even more severe in South Florida. Although asset bubbles are notoriously hard to predict, we suspect condominium prices may fall dramatically in the next three to five years. In a more moderate scenario, prices could stay stable or fall slightly in the short term before stagnating for two to three years.

RCG identifies a number of risk factors in the South Florida condominium market. First among these is the sustainability of the current levels of demand. Although developers report selling out new projects in hours or days, many of the buyers at these projects are investors and speculators who intend to flip the units without ever occupying them. Even based on a conservative estimate that 20% of condominium buyers are speculators, it has not yet been proven that sufficient demand exists for the current wave of units slated for delivery by 2007.

Rising interest rates and improving economies in South America may slow the inflow of capital to Miami real estate, cutting short current sources of demand for condominium units. Additionally, the unprecedented amount of new supply coming online in a very short period of time poses a risk for lenders and developers in the market. Encouraged by low interest rates and investor interest in real estate, developers have planned or started a historically high number of units. As these projects are completed, it is unlikely that every pre-construction speculator will be able to flip or close on units they purchased as speculative investments. Lenders and developers may find themselves in possession of units for which little demand exists.

While we are not forecasting a crash in the market, we are hesitant to endorse the current level of activity in the South Florida condominium market. In the long term we are bullish on South Florida's economy and real estate markets and expect the area to grow steadily in the future. In the short term, however, caution is merited as prices have risen well above the historical trend and condominium development is at almost unprecedented levels. There are likely to be condominium projects in the area that will succeed, but as many or more may come online at a time when demand is declining and prices are falling.