CONDO CONVERSIONS GO FROM FLIP TO FLOP

CONDO

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"I think I was just overcome by the greed of trying to flip a property and make a quick $20,000," she said.

Developers spent close to a total of a quarter-billion dollars buying these former apartment complexes across the Treasure Coast just five years ago.

Converting apartments to condo communities was a growing trend a decade ago and peaked in 2006, but has since declined to pre-2000 levels, said Michael Cochran, director of the state's division of condominiums, timeshares and mobile homes.

Economics, he said, most likely fueled the spike in the number of conversions that took place across Florida.

"The development cost for land and new construction," Cochran said, "is more expensive than the cost to purchase and renovate existing buildings."

But when the housing market began to crumble, the problems at condos converted from apartment buildings began to escalate.

"Once (developers) realized there were no buyers for their overpaid properties," said Maria Wells, president of the Realtor Association of St. Lucie County and broker-owner of Lifestyle Realty Group in Stuart, "the trend began with speculators and investors walking away from large deposits or selling them as short sales or foreclosures."

STRUGGLING TO KEEP AFLOAT

In the past five years, 1,330 apartment communities statewide were bought and turned into condominium communities, according to Florida Department of Business and Professional Regulation officials.

During this period, developers across the Treasure Coast collectively shelled out a whopping $272.3 million on 1,803 apartment units at 14 complexes.

After developers spent $119.52 million on 733 units in Martin County, court records show 233 have received final foreclosure judgments. In St. Lucie County, of 679 apartment units converted to condos at a cost of $103.04 million, 166 have received a final judgment of foreclosure. And after developers in Indian River County plunked down $49.74 million on 391 units, an estimated 107 units have been subject to foreclosure proceedings.

Today, condominium associations at some of these former rental communities are struggling to keep financially afloat.

And their problems could get worse.

Several leading real estate experts and analysts indicate the tide of local condo foreclosures might be far from over.

"Some (developers) went bankrupt and some of them are on the brink of it," said Sean Snaith, director of the Institute for Economic Competitiveness within the College of Business Administration at the University of Central Florida.

"When you look at the prices (apartment complexes) were purchased for," Snaith said, "it would be difficult for any developer, especially a smaller developer, to absorb those losses or be able to fall back on a line of credit to help get them through."

DEVELOPERS, RESIDENTS FEEL THE STING

In November 2006, Dana Berman purchased the 164-unit Pines of Vero Beach apartment complex on 16th Street for $9.25 million, and quickly converted the units into condominiums, pricing them at $130,000 each.

A year later, the Florida Office of Financial Regulation filed a complaint against Berman and his companies alleging he obtained about $192 million from more than 700 investors for real estate projects that were either in default or incomplete.

All of Berman's commercial projects were transferred to a courts receiver to recover money investors lost. Mortgage holder TransCapital Bank took back the Vero Beach property now called community's units sit vacant; 10 are in foreclosure, and just a few are rented. Berman, who declined interview requests, is now bankrupt, his attorney said.

West Palm Beach businessman John Naimi, who bought 123 units from TransCapital for $10.93 million, is struggling to sell the units and rents what he can.

Speculators and investors aren't the only people burned by South Florida and out-of-state condo developers.

Kathy Lovering, who had rented at the Pines of Vero Beach for three years before buying a unit in 2007, still regrets paying Berman $129,900 for her unit.

"The bank foreclosed … when I couldn't keep up with the payments," said Lovering, who now lives in Arizona.

She fears her credit could be damaged for a decade, she said, after she lost her condo. One like it now sells for about $39,000.

CONDO FORECLOSURES MULTIPLY

Veteran banker W.D. "Chic" Acosta, Seacoast National Bank executive vice president for mortgage banking, said over his three-decade-long career, he's seen this apartment-to-condo conversion trend come and go three times — in the 1970s, 80s, and in 2005 — and only when the housing market is shooting sky high.

Typically, these conversions create an inflated but "false market" when pricing condo units for sale, Acosta said. The false market spurs a huge drop in property values later, prompting the mostly speculator-owners to abandon their investments.

"In this last bubble speculators … intended to quickly sell or 'flip' the unit," Acosta said, "just as the developer intended to flip the project."

The highest priced apartment complex sold on the Treasure Coast and converted to condos was the 384-unit Portofino at Jensen Beach purchased by Montecito Property Company Inc., for $61.8 million in May 2005. Since then, court records show Dizengoff-Portofino LLC owns 74 units, another 122 units are facing foreclosure, and 126 liens have been recorded against unit owners to recoup unpaid maintenance dues.

The Club at St. Lucie West, a sprawling 380-unit community off St. Lucie West Boulevard in Port St. Lucie, sold for $51.4 million in 2005, coming in as the second highest condo conversion sale in the region. The units sold for as high as $302,000 for a three-bedroom, and one-bedrooms were fetching $198,000 after the conversion. Today, Boca Executive Realty has 11 units listed for sale, mostly short sales, ranging from $47,000 to $87,900, according to its website.

The Palm Estates at Vero Beach, off 58th Avenue north of State Road 60, purchased by Cervera-Bankers Holdings LLC, sold for $31.66 million in 2006, one of the highest real estate transactions recorded in Indian River County.

Since then, the 153-unit complex has had 89 foreclosures and four liens, with Cervera-Bankers receiving final foreclosure notices on 54 of those units.

Miami real estate investor Javier Cervera Jr, 42, who with a partner converted several apartment complexes, including Palm Estates and Fairway Palms II in Stuart, said initially his goal was to buy and manage rental buildings.

But apartment-to-condo conversions were all the rage, and appeared to be a profitable business model, he said.

And while some conversions proved profitable, Cervera said when the market crashed, he and developers like him were left with entire apartment buildings full of units they couldn't sell.

"In Vero Beach and in West Palm Beach, I had a significant amount of my own personal money in there, which was lost, unfortunately," said Cervera, a business veteran whose Miami-based family has spent 25 years in the real estate industry. "What happened sucks on many levels for a lot of different people. There were no villains here, we didn't do anything wrong."

Cervera insisted his company sold condo units based on the market, and that people willingly paid. He blamed people too willing to overextend themselves for skyrocketing foreclosure rates that have swept the nation since 2006.

"When you talk to people who bought an apartment and they're looking for a villain, sometimes they just have to look at themselves and say, 'Did I over-leverage myself? Did I have an expectation that was unrealistic?'" Cervera said. "A lot of times people don't want to look at themselves and they want to blame somebody else.

"They want to blame the appraiser, the bank and they want to blame the developer," he added. "They want to blame their friend who did the deal and made money on the deal and they didn't."

SOME SUCCESS AMIDST DEVASTATION

But not all Treasure Coast apartment-to-condo conversions have done poorly.

Weatherbee Villas, a 12-unit condo complex in Fort Pierce, has no foreclosures, and court records show only one lien has been filed against a unit owner since being converted in 2005. Likewise, the 17-unit Vero Beach community 1727 A1A Condominium has not recorded any liens, foreclosures or evictions since converting in 2005.

Condo communities that are largely owner-occupied generally do better financially, said Kevin Payne, a certified public accountant and shareholder in the Stuart-based Proctor, Crook, Crowder & Fogal.

"The higher the percentage of units being used as primarily residence," he said, "decreases significantly the risk that someone is going to go into default on their maintenance fees and ultimately get foreclosed on by their bank."

Owners who are paying their monthly dues can get stuck paying more through special assessments to cover for unit owners who aren't.

Frank Rathbun, spokesman for the Community Associations Institute, a Virginia-based organization that advocates on behalf of homeowner associations, said a significant amount of delinquent dues can lead to a decline in services at local condo conversion communities.

Associations can suffer delays in needed capital improvements, and experience a drop in reserve funds that are set aside for emergency situations, such as repairs in the aftermath of a hurricane.

"When a homeowner, or a developer or a bank lender, do not pay their fair share of the monthly assessments, something has to be done because the people in the community and the board are the ones left holding the bag," Rathbun said. "Ultimately, associations are a business, so they have to be run like a business, otherwise they go out of business."

At the 153-unit Palm Estates at Vero Beach, association dues are collected from the rentals at the complex — before unit owners get their own cut of the rent, said Michelle Aslin, who manages rentals, sales and the complex's condominium association.

"Our fees get paid here," Aslin said. "There's no way around that."

If a unit-controlled condominium association is grappling with unpaid bills or depleted reserves, then, as a corporation operating as a business, the association's board "has the power to assess, borrow funds, develop spending priorities and otherwise manage the affairs of the condo," said Michael Cochran, director of the division of condominiums, timeshares and mobile homes.

There are no state programs available to guide associations facing financial difficulties, Cochran said. And he agreed if an association's financial situation is unsalvageable through normal management and business practices, the only other solution is to terminate the condo form of ownership.

"If an association is unable to pay its bills," Cochran said, "it may end up in a bankruptcy."

READY TO SWOOP IN

Peter Zalewski, president of Miami-based Condo Vultures Realty, a firm that represents investors looking to buy large blocks of foreclosed condos to rent them until the market recovers enough to sell units at a profit, predicts he will be scoping out condo conversions on the Treasure Coast within 12 to 18 months.

That's after conversion projects in Miami-Dade, Broward and Palm Beach counties are sold to investors and private equity groups, he said.

Since July 2008, in Dade, Broward and Palm Beach counties there were 50 transactions of bulk deals, with 4,800 units selling for $1.1 billion in cash, he said.

"The natural progression is to move (north) from there because it just makes sense, financially," Zalewski said. "The vultures aren't circling the Treasure Coast yet, but talk to me in a year and we will be."

Foreclosed bulk units at troubled condo conversions on the Treasure Coast could sell for 25 or 30 cents on the dollar, he said.

Meanwhile, Grant Stern, president of Condo Terminators, a specialty consulting group of Morningside Mortgage Corp. in Bay Harbor Islands, is marketing a new legal instrument locally and in South Florida. It's called the "Plan of Termination," which can assist in reverting failed condos back into apartment buildings with single owners.

Stern said he has already completed the legal filing process for the first such project in Florida, the Sunset Lake Villas Condominium in Margate.

Stern explained reconfiguration as a process where there is a legal separation of rental and condominium units within the same complex. Stern advised associations with substantial negative equity — those who lack adequate cash reserves and insurance — to examine their legal options before just giving up on the property.

"There is a viable process for every association," Stern said. "Condo associations looking to relieve themselves of a headache can use these legal mechanisms to their advantage."

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IF YOU'RE A CONDO ASSOCIATION

- As a corporation under Florida law, a condo association operates as a business and has the power to assess, borrow funds, develop spending priorities and otherwise manage the affairs of the condo, including hiring an attorney.
- If a condominium's financial situation is so dire as to be unsalvageable through normal management and business practices, the only other solution is to terminate the condo form of ownership.
- If an association is unable to pay its bills it might end up in a bankruptcy, and like any other business it would proceed through the judicial bankruptcy process.
- Condo complexes doing the best are proactive. Association boards at some distressed complexes have built into their annual budget an allowance for bad debt. Experts say it could force an increase in dues for those who are paying, but the move can help avoid slapping owners with a large special assessment.
- Condo boards can save money by cutting back on services such as landscaping, or delay repairs. And they can try to renegotiate outstanding debts with utility companies, vendors and cable companies.
- In order to maintain financial viability, association board members need to be aggressive in asserting their rights to receive back assessments from foreclosing banks and from non-paying owners. Members should be aware of new legislation (Florida Chapter 2010-174) that went into effective in July that permits associations to collect assessments directly from a tenant where the unit owner fails to pay assessments. The new legislation also increased the amount of unpaid back assessments that a foreclosing bank must pay to an association from 6 months to 12 months.

Stuart attorneys Fred van Vonno, Jane Cornett and Florida Division of Condominiums, Timeshares and Mobile Homes.

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FLORIDA'S TREASURE COAST AND PALM BEACHES

When do you think the Treasure Coast's condominium market will start to show signs of recovery?

- One to two years
- Two to five years
- Five to 10 years
- More than 10 years
- Never

IF YOU'RE LOOKING TO BUY

If shopping for a condo in a converted community:

- Obtain a copy of the latest financial statements, budget and a certificate from the association stating the amount of all assessments and other money due to the association from the unit that is being purchased.
- If the association has had a reserve study done, the buyer should request a copy, if not from the association then from the selling owner.
- A reserve study is usually created by an expert qualified to do building inspections and assess estimates for repair and replacement costs for all components covered by the association, including roofs, driveways and clubhouses. The analysis enables board members to set a minimum level of annual reserve contributions made by the condo association.
- The most important document to review is the "conversion inspection report." Florida condo law requires that a developer prepare this report showing the condition of any improvements, their condition and replacement costs.

Florida Department of Business and Professional Regulations, Kevin Payne, certified public accountant and shareholder in the Stuart-based Proctor, Crook, Crowder & Fogal.

CONVERTING MARTIN COUNTY APARTMENTS TO CONDOMINIUMS

By the numbers through august 2010

$119,520,000 million: Condo conversions purchase price
733: Units purchased by developers:
241: Foreclosures
231: Liens
13: Evictions
2: State complaints

TREASURE COAST BY THE NUMBERS

Conversions between 2005 and 2010

$272,300,000: Condo conversions purchase price
1,803: Units purchased by developers
530: Foreclosures
552: Liens

Recorded apartments–to-condominiums conversions since 2005

Indian River: 5
St. Lucie: 5
Martin: 4
Florida: 1,330