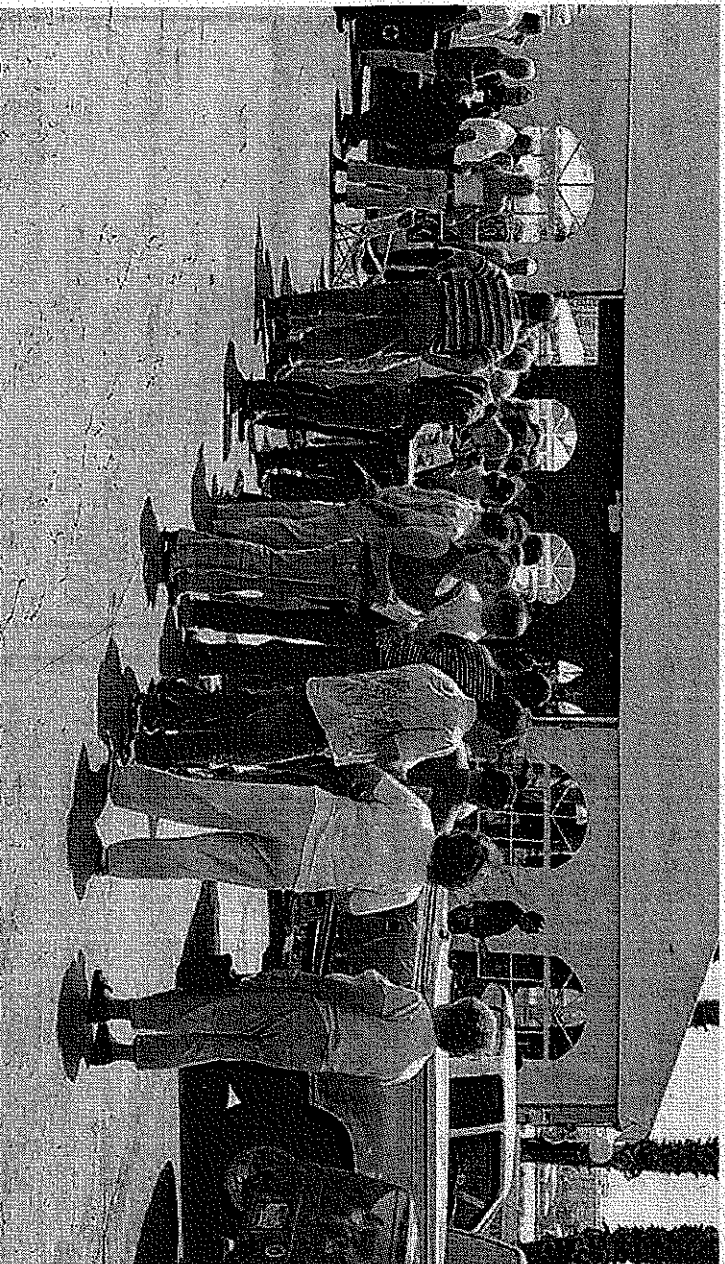




CHARLOTTE SOUTHERN/FOR THE MIAMI HERALD



HERALD FILE, 2005

**OCCUPIED:** Robert White, top left, and Paul Kaplan of KW Property and Consulting manage the condo association at The Flamingo that is under receivership by a different company. Above, at the height of the condo conversion boom in June 2005, buyers and brokers waited in line at the sales launch for Treasures on the Bay, a condo conversion in North Bay Village.

# THE CO

The condo-conversion suit

Much of the attention heaped on South Florida's struggling condominium market has been focused on the sexy, luxury towers that shot up along the coastal waterways. Before the curious eyes of the world, a historic construction boom restyled the skyline in just a few short years. But beyond the waterfront properties and the focus of the national media, in South Florida's less come-hither heartland — communities such as Kendall, Hialeah and Lauderhill — an even larger wave of condo creation was taking place and bringing rapid change to the housing landscape.

Hundreds of rental buildings, representing tens of thousands of units, were being bought by developers, emptied of renters and turned into condominiums for quick resale, mostly to investors and speculators, as so-called condo conversions. And now that slice of the market is in real trouble.

Since 2003, when housing prices took off, more than 74,000 rental apartments were converted into condominiums in Miami-Dade and Broward counties, twice as many as the previous 50 years combined, according to state records of condo conversion applications. The number compares to roughly 53,000 new units constructed in both counties since 2003, according to research of state records by Condo Ventures, a Bal Harbour-based brokerage and real estate consultancy. As the fallout from the housing collapse continues, the conversion market — largely a collection of aging garden-style complexes and dowdy mid-rise buildings — is shaping up as one of the biggest losers of the downturn.

Most real estate analysts predict it will be the last submarket to recover since it is competing for scarce buyers with the swanky supply of new condos being marketed at cut-rate prices.

"It's ugly out there. The conversion market is extremely dysfunctional," said Constantine Scurtis, the Miami-based vice president of The Lynd Co., a large, national apartment management company headquartered in San Antonio. "There were a lot of inexperienced

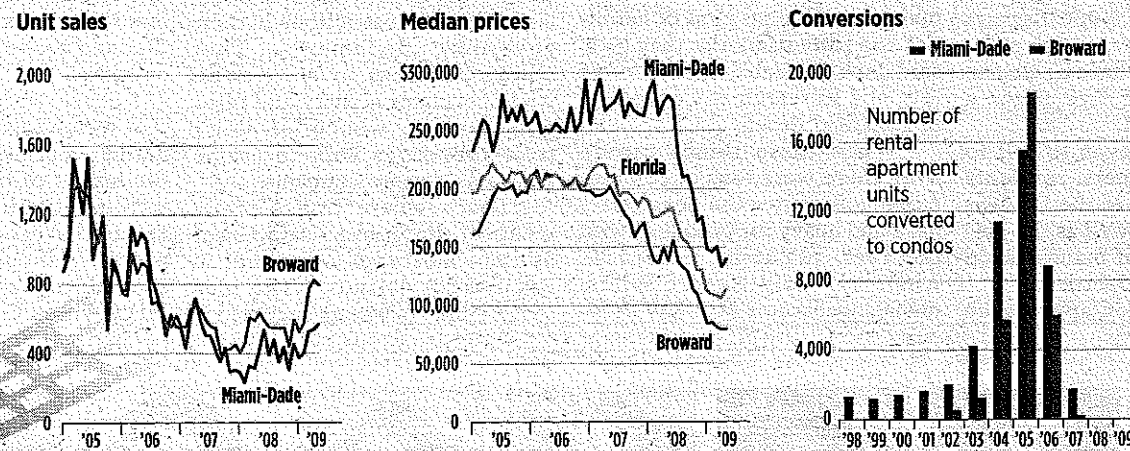
# CONDO CONVERSION COLLAPSE

market - comprising many aging buildings - will be the last to recover, real estate analysts predict



## A troubled condo market

Condominium sales and condo conversions peaked in 2005. Conversions remain the most distressed slice of the market.



SOURCES: Florida Department of Business and Professional Regulation, sorted by CondoReports.com; Florida Association of Realtors; Moody's Economy.com

THE MIAMI HERALD

developers that converted product that never should have been converted."

### EXTREME EXAMPLE

While almost all condos have faced plunging values, abysmal sales, high foreclosure rates and cash-strapped condo associations since the market took a dive two years ago, condo conversions have all those problems in the extreme, analysts said.

Adding to their woes are aging buildings, developer disputes, high rates of absentee landlords and foreclosures of entire projects.

Median prices for conversions are down by an estimated 60 to 75 percent since peaking. Overall, median home prices have fallen by just over 50 percent in Miami-Dade County and 60 percent in Broward, according to statistics from the Florida Association of Realtors.

Grant Stern, a mortgage consultant in Bay

Harbor Islands, who joined partners in converting an apartment building during the boom, estimates that between 10,000 and 20,000 units are severely underwater and at risk of being reverted to rentals.

Vince Yambrovich, for example, paid about \$174,000 for a condo at the Mirassou conversion in Northwest Miami-Dade when the market was at its peak. Now similar units are being listed for about \$50,000, he said.

"People camped out to buy these places — my family didn't do that — but several people that are still living here did and they talk with... regret about that experience to be first in line to buy one of these places. Nobody saw this coming," Yambrovich said.

Investors have begun picking through the distressed projects, looking for high quality complexes whose developers have sold only a few units.

Scurtis says his company has access to a

\$500 million fund and is actively seeking to acquire bank notes and distressed South Florida conversions that can easily be turned into rentals.

The biggest challenge to so-called conversion reversions is getting lenders to stomach the huge losses, he said. "Some of them cannot take the losses because it will put them out of business," Scurtis said. "They've been frozen like deer in headlights." Stern said he was arranging financing for a developer looking to buy back 35 units from condo owners for a conversion reversion. Down the road, the idea would be to resell the entire apartment complex when the market recovers.

Renting out the remaining units in one of these "fractured" projects can pose difficulties for developers, especially when high foreclosure rates have left condo associations on the ropes.

Not only is the money coming in from the

associations insufficient to keep buildings up, but the tolerance levels of owners and renters also are different. "You are dealing with a lot of homeowners, so you can't take the place over with your maintenance crews and leasing offices," Scurtis said.

Relatively forgotten by developers until the early 2000s, conversions were rediscovered as an inexpensive way to provide affordable housing and home ownership to low-paid workers in South Florida's service and tourism industries.

### CASHING IN

When both prices and demand began to heat up in 2002, though, the virtues of conversions as quick, easy and profitable investments became clear to astute converters looking to cash in on rising property values and potential buyers' belief that prices would continue to go up, up and up.

"To convert an apartment into a condo building required a legal declaration, a coat of paint, some new sod and blacktop for the garage, and you had a condo conversion," said Peter Zalewski, Condo Vultures president. New construction could take two to three years or more to bring to market. Conversions, by comparison, could be turned around in nine to 12 months. The relatively simple process drew a crowd of new condo converters to the field, from doctors and plumbers, to attorneys and mortgage brokers. They pooled their money and dove in. Project financing was ample and ubiquitous.

"The root cause of the condo conversion boom was that residential apartment values were skyrocketing in comparison to the commercial income value of the apartments," Stern said.

In much the same way that investors were making unsolicited offers to homeowners to purchase their properties, condo conversion companies were making handsome offers to buy apartment complexes from multifamily

\*TURN TO CONVERSIONS, 15

# Investors and speculators saturated the market

• CONVERSIONS, FROM 12

operators.

"Developers were trying to get as many deals as they could," said Robert White, a managing director of KW Property Management & Consulting, a Coral Gables-based firm that helped arrange financing for several converters during the boom. It now handles several failed conversion projects for lenders.

## RENTAL DEPLETION

The result, according to analyst Jack McCabe of McCabe Research & Consulting, was "an incredible depletion in the rental apartment pool — in Florida, but especially in Miami."

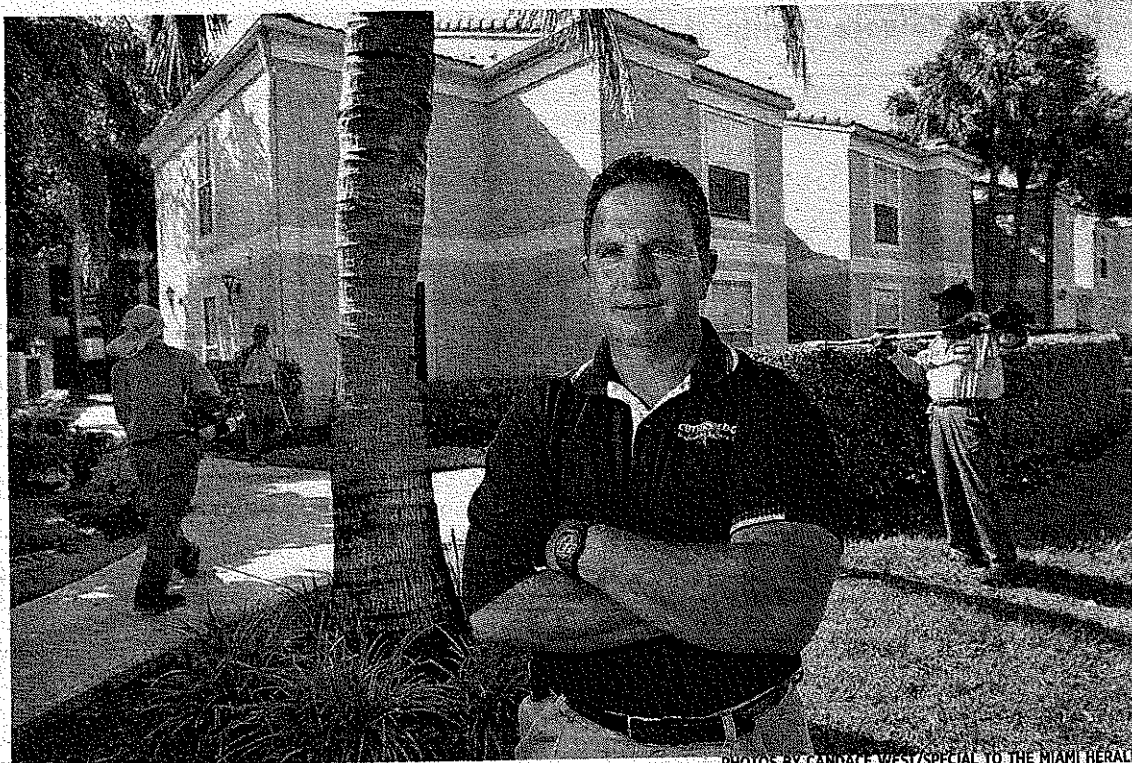
The sweep pushed rents up by 14 percent in 2006, McCabe said. "We lost over a third of the apartments to condo converters."

At the beginning of the craze, developers were buying new apartment buildings for roughly \$80,000 to \$85,000 a unit, said Adam Cappel, president of Miami-based CondoReports.com, a condo consultancy. As the boom progressed, unit prices skyrocketed to \$165,000.

As the best properties were snapped up, developers eventually began turning to older complexes. "Generally, converters were looking for 15 percent [or higher return] on their total development budget. So if the complex cost \$40 million to buy and they needed to put in another \$10 million in costs, then they would want to project a \$7.5 million to \$10 million profit beyond those costs," Cappel said.

Some deals returned more. Others, obviously, ended in bankruptcy and foreclosure when the market turned, Cappel said.

Meanwhile, easy credit made homeowners and investors out of people who had little ability to afford a new condo in the soaring market. Thousands of renters, who may not even have been looking to own, were



PHOTOS BY CANDACE WEST/SPECIAL TO THE MIAMI HERALD

**BLEAK LANDSCAPE:** Bill Quigley, above, who owns Cutters Edge Professional Service, a lawn property maintenance company, said he has seen the condo conversion problems firsthand. Developers, he said, often made only minor improvements, like basic lawn care, below, to major conversion infrastructure.

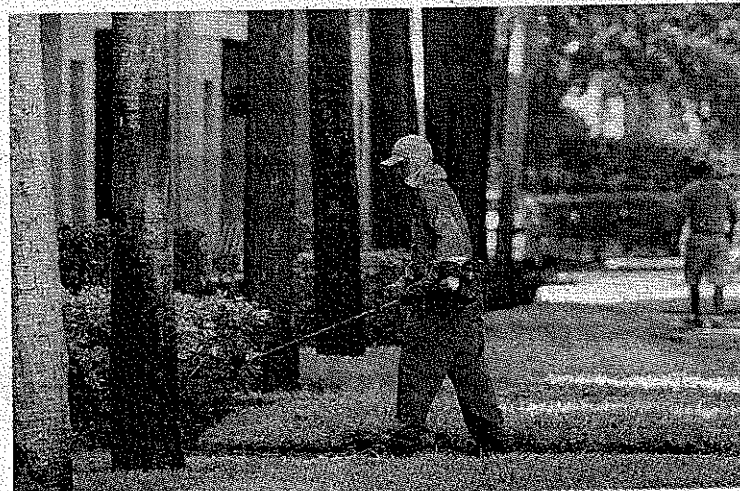
offered a chance to buy their units.

White, of KW Management, said developers offered renters first dibs on properties slated for conversion. Lenders often set up shop on the premises to peddle payment-option adjustable rate loans and mortgages requiring no proof of income or assets. Enticements included no closing costs and no money down. "Those deals [to renters] were best for developers," White said. "Often their units wouldn't need any upgrades. A lot of people wanted their units 'as is.'"

Around 25 percent of the renters would end up buying in typical projects, White said.

## EASY INVESTMENT

Other investors and speculators flocked to conversions not only because they were less expensive than new construction but also because developers



of the ready-made product required no preconstruction deposits as builders of new condos did.

"For speculators with no financial wherewithal to enter the market, conversions were the way," Cappel said. Teaser-rate loans allowed them to buy

several units, rent them out or flip them as values rose. As conversions opened with grandiose sales events, some developers sold out their units in a matter of hours to buyers who sometimes camped out overnight so they could be among the first purchasers.

*For speculators with no financial wherewithal to enter the market, conversions were the way.*

— ADAM CAPPEL,

president of Miami-based CondoReports.com

By the end of 2005, it was becoming clear to consultants like McCabe that the rate of conversion projects coupled with new condo construction was leading to a serious oversupply. "And, we knew that well over 50 percent of the sales were going to speculators," McCabe said.

Analysts say the crash of the conversion market came in early 2006. White said instead of one or two deals a week, rather abruptly his company went to handling no deals at all. Units continued to sell for another six months but eventually that, too, slowed to a trickle.

With the pool of buyers evaporating, KW Management, whose job on some projects had been to kick out renters because prices had risen beyond their reach, began a mad scramble to bring renters back in.

## PULLING BACK

Overall, some 16,000 conversions have been pulled back into the rental pool since the market cooled, according to McCabe. The number grows daily.

As the market turned to cinders, buyer incentives such as free granite upgrades and no maintenance fees for two years worked for only a short while. The efforts, became, as White put it, "like putting a Band-Aid on a leg that had been cut off."

When 2008 rolled around, the chips had fallen. Those developers who failed to close their units were trapped in a financial vise.

The market freeze caught many in the midst of project

• TURN TO CONVERSIONS, 16

# Developers leave projects in poor condition

**\*CONVERSIONS, FROM 15**

renovation with construction dust still in the air. "They had torn up the units to renovate them. They couldn't sell them, but they couldn't rent them. Then, they were in a world of trouble," White said. Conversion foreclosures have been widespread. White's company, for example, currently manages 20 foreclosed projects in receivership.

Timing turned out to be crucial. Analysts said most developers who delivered conversions to the market in 2006 are stuck with significant unsold inventory.

Some of those who sold at least half of their units, however, are able to stay afloat by renting out what's left.

But other developers have simply run out of money. Flame-outs range from small, individual converters to Juan Puig of Puig, Inc., one of the first major conversion companies to file for bankruptcy.

Unable to shoulder their share of maintenance fees, these developers typically have projects that are in very bad shape. "Vendors are not being paid; electricity and water are turned off. The garbage is not being picked up. It's bad. Some are complete disasters," White said.

While no one is tracking how many condo conversion buildings are in foreclosure or bank-owned, analysts believe it is easily in the hundreds.

Meanwhile, conversion owners like Yambrovich are stuck in quickly deteriorating properties. The Mirassou condo association is receiving demand letters from creditors because high fee delinquencies and foreclosures have made it impossible to pay all the bills.

"I see our situation as being kind of like a renter," Yambrovich said. "We'll never sell the place and be able to pay off the mortgage, but we need a place to live right now. So, we're living — existing here."

## Keystone Towers Condo (Miami, FL)

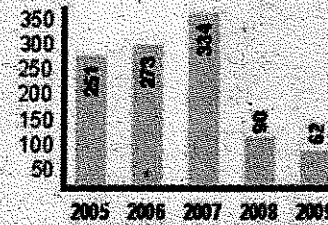


2020 NE 135 St  
Miami, FL 33181

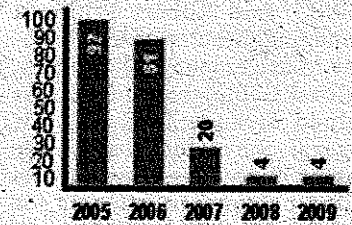
MARKET: San Souci/Keylone Islands  
COUNTY: Miami-Dade

YEAR BUILT: 1969  
TOTAL UNITS: 200  
EST. MAINT. PSF: 0.32

**AVG PRICE/SQ FT (\$)**



**UNIT SALES (#)**



## Inland Towers Condo (Miami, FL)

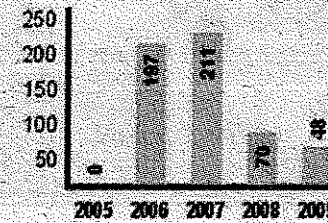


2075 NE 164 St  
Miami, FL 33162

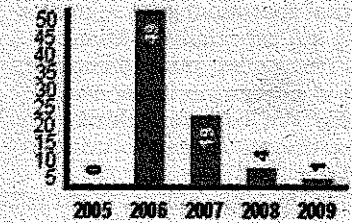
MARKET: North Miami Beach/163rd  
COUNTY: Miami-Dade

YEAR BUILT: 1971  
TOTAL UNITS: 148

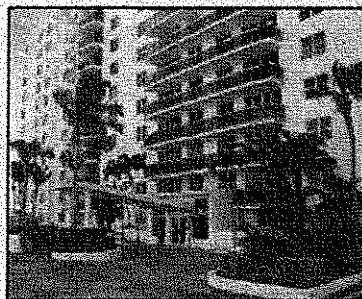
**AVG PRICE/SQ FT (\$)**



**UNIT SALES (#)**



## Treasures on the Bay II Condo (North Bay Village, FL)

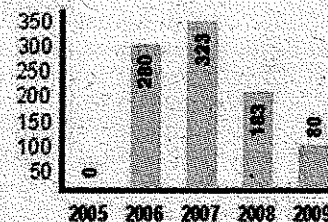


7501 E Treasure Dr  
North Bay Village, FL 33141

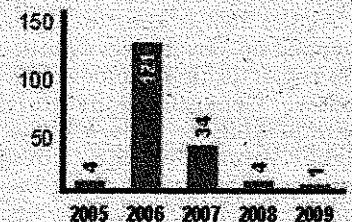
MARKET: North Bay Village  
COUNTY: Miami-Dade

YEAR BUILT: 1965  
TOTAL UNITS: 170  
EST. MAINT. PSF: 0.51

**AVG PRICE/SQ FT (\$)**



**UNIT SALES (#)**



## Grand Flamingo South Beach Condo (Miami Beach, FL)

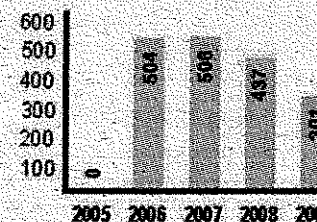


1500 Bay Rd  
Miami Beach, FL 33139

MARKET: South Beach West  
COUNTY: Miami-Dade

YEAR BUILT: 1960  
TOTAL UNITS: 562  
EST. MAINT. PSF: 0.60

**AVG PRICE/SQ FT (\$)**



**UNIT SALES (#)**

