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## Condo associations have mess to clean up

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After the race to convert as many rental apartments as possible into condominiums came to an end, condo associations were largely left to deal with the mess left behind.

Many conversion associations were ill-equipped and underfunded from the start. Now, they are among the most financially beset of the region's struggling associations.

Aging buildings, sometimes 20 or 30 years old, and units abandoned to foreclosure by ruined investors who stop paying monthly maintenance fees have shifted a far larger fiscal burden on conversion associations than many can afford.

Part of the problem, condo association attorneys said, has been flawed budgets submitted to associations by developers after they turned control of a conversion over to unit owners. A major culprit is deferred maintenance costs.

"Just like there was a lot of shoddy appraising going on, there was a lot of shoddy budgeting going on," said Constantine Scurtis, vice president of The Lynd Co.

Bill Quigley, who owns Cutters Edge Professional Service, a lawn and property maintenance company, said he has seen the problems firsthand.

### **SUPERFICIAL TACTICS**

Developers, he said, often made only minor improvements to major conversion infrastructure but poured money into enhancing a project's curb appeal.

"The developers would have us plant 4,000 to 6,000 flowers around all the units, all the pathways. They would have us change them out four or five times a year," Quigley said.

As the units began to sell to investors and owners, residents grew accustomed to the Disney-like landscapes as well as the presense of dozens of maintenance workers on the properties.

The emphasis on appearance made good business sense, Quigley said. "The prettier the place looked, the more they wanted to buy. It was a kind of mirage put out there."

The fresh paint, hot tubs and newly-thatched Tiki huts often concealed serious problems, such as aging elevators that would soon need to be replaced, old plumbing and other structural problems. Associations often had trouble collecting enough fees from homeowners to cover replacement costs.

"Buyers didn't know who the converter was or his history. They didn't read the condo documents to see what kind of liabilities and responsibilities they had" said Jack McCabe, president of McCabe Research & Consulting in Deerfield Beach.

“When these things turned over, there were tons of communities going after the developers hard and heavy for problems with the roof, plumbing, electrical, whatever,” said Robert White, managing director with KW Property Management & Consulting.

Developer turnover lawsuits, as they are called, are still common. But, because many developers formed LLCs or single-purpose entities to execute short-term business plans, condo associations are largely left chasing shell companies with no assets, said Eric Glazer, a condo association attorney.

“The developer certainly has no assets,” he said. “That’s the biggest problem we’re seeing.”

## **OVERRUN BY RENTERS**

Another problem that has come to haunt conversions is the lack of rental restrictions in their governing documents. That allows buildings to be overrun with speculator activity and filled with renters, who often don’t treat properties with the same regard as owner-occupants.

“That’s where things really went off the tracks,” said Grant Stern, a mortgage consultant in Bay Harbor Islands. “The idea that a condo is owner-occupied is essential to the form of ownership.”

Absentee landlords have become notorious for abandoning maintenance fees while continuing to collect rent from tenants. In a 12-unit building, for instance, with 12 different landlords and 12 tenants, “there’s no one running the asylum,” Stern said.

Myriad problems, including bankrupt developers who may still hold dozens of units in some complexes, have made it nearly impossible for prospective buyers to get loans to buy units. Jittery lenders typically shun making loans in distressed condos out of fear that prices will fall even further and erode the value of their collateral.

“There were a lot of buyers that weren’t extremely discriminating on product quality during the height of the market. There were a lot of lower grade apartments that were converted that probably shouldn’t have been,” said Adam Cappel, president of Miami-based CondoReports.com.