



# Terminators Target Converted-Condo Glut

By [MARILYN ALVA](#), INVESTOR'S BUSINESS DAILY

Posted 06/17/2010 05:38 PM ET

Like a lot of investor-developers, Anthony Galeotafiore tried his luck converting Florida apartments to condominiums during the housing boom.

In the bust, he's doing the opposite as a condo terminator. The method he's using could help salvage many of today's troubled condo conversions, real estate professionals say.

It helped Galeotafiore rescue his investment in a \$4 million apartment complex in Broward County.

"I spent two years with this deal being the death of me, and now it's going to be one of the best assets I have," he said.

Back in the boom, Galeotafiore had seen how converters turned old rental apartment buildings into condos, selling the fixed-up units at a premium to buyers priced out of new luxury developments.

Some 520 Florida rental complexes went condo in 2005 and 635 in 2006, state records show.

But the housing market's collapse halted the conversion craze, sending many projects into distress as financing and buyers evaporated.

"Condo conversions are failing from one end of the country to the other," said housing analyst Jack McCabe of McCabe Research & Consulting. "It started in South Florida."

Galeotafiore's 1972-vintage rental complex became one of them.

### **Then Vs. Now**

At first things had gone well for Galeotafiore, managing member of Bethpage, N.Y., development group AJG Realty. By early 2008 he had sold 11 of the 44 units in Margate, Fla., at \$195,000 each. But the housing market collapse saddled him with the rest of the units and a \$2.6 million remaining bank loan he couldn't pay. By 2009 a two-bedroom unit appraised at just \$15,000.

Galeotafiore drew up a new game plan, deciding that a condo termination was his ticket out. He's turning the property — Sunset Lake Villas — back into a legal rental via a state-approved condo termination process.

It's time-consuming. In terminations, a trust is set up to pay any debts and liens. Unit owners become beneficiaries of any proceeds from the sale of the

property.

A written termination plan is required. So is an OK by 80% of the voting interests of a condo complex. A 'no' by just 10% can scuttle plans.

"The best way to do a termination is to have a building where less than 10% of individuals own units; then nobody can block it," said real estate attorney Jennifer Drake of Becker & Poliakoff in Fort Lauderdale.

Galeotafiore wasn't too worried. In September he started buying some units out of foreclosure, for about \$18,000 each. He now has control of 39 of the 44 units in his complex.

The other five headed toward foreclosure over a year ago. None of their owners challenged a termination vote June 9, putting the reversion on track to happen 90 days hence.

Several mortgages were 10 times a unit's value, so it's "basically a massive short sale," said Grant Stern, president of Morningside Mortgage in Bay Harbor Islands, Fla., Galeotafiore's adviser.

### **Short-Sale Strategy**

Stern foresees a new wave of condo terminations at buildings ripe for bulk short sales, such as Sunset Lake.

The idea "is ahead of the curve," said Condo Vultures principal Peter

Zalewski, in Bal Harbour, Fla. If successful, "the industry will probably embrace it as an exit strategy — the project suddenly becomes much more attractive for an investor."

Galeotafiore plans to seek a multifamily housing loan at half the 12% interest rate he's paying on a new \$1 million loan he wrangled.

Rentals have renewed appeal, with the median condo price in the area down almost two-thirds since 2007.

"If we have 44 units at \$1,000 a month, that's almost \$600,000 a year in gross income potential," he said. "And if expenses are \$200,000, you can see what kind of net income the building can produce."

Galeotafiore has already hired a property manager, who signed leases on 35 units at \$1,000 a month.

Condo terminations are cropping up in other states where condo conversions occurred, such as New York and California, says Orest Tomaselli, CEO of National Condo Advisors, a project-approval service. But Florida is really ground zero for conversions and their troubles.

"They've crashed harder than the new-condo market," McCabe said. "Right now in Miami, Orlando and Fort Myers, you can buy a condo conversion for less than a new car."

Stern thinks terminations make sense for failed conversions, especially those

"heading for Class D."

Mortgage payment delinquencies, especially rife in older conversions, are "the number-one problem in our business right now," said Paul Kaplan, managing director of KW Property Management & Consulting.

Mortgage delinquencies pressure operating budgets. In some Florida conversions, more than half of owners are behind and associations can't pay for lawn-cutting, cleaning and pool care. Remaining owners suffer special assessments, which can push them over the edge into foreclosure.

Condo terminations aren't new. They were a legal necessity for South Florida complexes destroyed by Hurricane Andrew in 1992. Pre-boom, terminators bought older beach condos to raze and rebuild.

"A lot of Sunny Isles, including the six Trump Towers, were built on this kind of terminated condo project," Zalewski said.

But terminations have a different purpose now, he says: "The condo terminations will be for a bulk buyer to reduce carrying costs and operate the product as a rental."

Galeotafiore is looking forward to better days at Sunset Lake.

"It's a performing asset that will be a long-term cash cow," he said.

<http://www.investors.com/NewsAndAnalysis/Article.aspx?id=537659&p=2>

