

CONVERSION REVERSION

There's an old saying that one man's poison is another man's bread. A current case in point is the severe downturn in the condominium market which has left many developers with unsold units and spawned the trend known as "conversion reversion." In this real estate maneuver, a buyer purchases unsold units in a condominium project in bulk at steep discounts and converts them back into rental units. While this might sound like a golden opportunity to turn a hefty profit, potential buyers should realize that the road to success typically is not free of potholes.

Becoming a "Developer"

The first and most basic issue involves understanding that bulk buyers who seek to rent the condominium units they have acquired will be subject to the often stringent provisions governing condominium developers in accordance with Florida condominium law. Under the law, a developer is defined as someone who "offers condominium parcels for sale or lease in the ordinary course of business."

One provision of the law addresses control of the board of directors of the condominium association. If bulk buyers choose to solely lease out the units they purchased, the law stipulates

that they must relinquish control of the board of directors to the non-developer unit owners. Without the ability to control the board of directors, the bulk buyer might not have a vote as to how the buildings and amenities which comprise the condominium are maintained. Even if the bulk buyer chooses to sell or maintain the pretense of selling some of the units, there is a seven-year limitation from the date the declaration of condominium was recorded on the right to control the board, at which point the non-developer unit owners gain control.

Condominium Termination

Faced with the prospect of losing control of the board, the savvy bulk buyer might realize that the only way to maintain extended control of the units is by terminating the condominium altogether. However, this strategy might present its own challenges. For example, the original declaration of condominium may complicate the matter by not addressing termination or it may contain a stringent provision requiring a 100 percent vote of the unit owners to terminate.

Restrictions on Renting

If the condominium is not terminated, provisions of the declaration may complicate the rental process. Restrictions on pets, length of lease terms or even the need for board approval of all rental applicants may significantly limit the pool of potentially acceptable tenants. Other restrictions in the declaration might prohibit creation of a leasing office on the premises or provide only for establishment of a sales center, with no mention of a leasing office, thus making it difficult for the bulk buyer to meet potential tenants on site.

These are a just a few of the potential issues facing a bulk buyer. There are ways to deal with most scenarios that could arise, but they require a careful analysis of the declaration of condominium and Florida's condominium law. As with any other real estate venture, the "conversion reversion" can be a profitable strategy for informed buyers who approach each opportunity with their eyes wide open. ☺



BY MARK GRANT, ESQ.
RUDEN MCCLOSKEY
200 E. BROWARD BLVD., 15TH
FLOOR
FORT LAUDERDALE, FL 33301
954-764-6660
MARK.GRANT@RUDEN.COM
WWW.RUDEN.COM