

PROPERTY REPORT

Developers Rush to Buy Out Owners in Aging Miami Buildings After Area Condo Collapse

At least eight properties are involved in sales talks, with plans to replace most of them with towers for the wealthy

By Deborah Acosta

Miami developers are scrambling to acquire aging waterfront condominium buildings, demolish them and build luxury residential towers in their place, a strategy that has been gaining attention since a 12-story building in Surfside partially collapsed last summer, killing 98 people.

Owners of at least eight waterfront condo buildings in the Miami area are in sales discussions with Related Group, Starwood Capital Group or other developers, according to real-estate brokers, developers and owners.

Most of these buildings occupy prime locations on streets that are completely built out. Developers often agree to pay owners above market rate for their condo units, planning to build high-end residences that cater to the wealthy transplants flocking to South Florida.

This process, known as condo termination, has been going on in Miami for at least 20 years, said Martin Schwartz, an attorney at Bilzin Sumberg who specializes in condo laws. It gained a bad reputation during the subprime mortgage crisis, when many developers offered much less than owners had paid, he said. But it has found a more receptive audience since the June collapse of the Champlain Towers South building in the Miami-Dade County town of Surfside.

Boards at Champlain Towers North and Champlain Towers East, two sister properties to the collapsed condo, have both been in discussions with Related Group about termination, according to a former board member, though it was unclear if these discussions are continuing.

A Related spokesman declined to comment.

Hundreds of condo buildings, representing more than two-thirds of condominiums in the Miami area, are either approaching or more than 40 years old. That is the time when the county requires a recertification to make sure the property is still structurally sound.

The cause of the Surfside collapse remains under investigation, but so far engineers have determined that a combination of problems likely were at fault, including design flaws, poor construction and delayed maintenance. Many of the unit owners had balked at assessment costs associated with retrofitting the property.

After the collapse, many Florida lawmakers vowed to enact new laws that would stiffen inspection and funding requirements for condo buildings. But in March, the state legislative session ended without any such

laws passing.

Terminating a condo and selling the building represents a private-sector response, offering a solution for owners on fixed incomes who could face a substantial assessment bill on aging buildings, say developers. Costs can run to millions of dollars per property, sometimes more than \$100,000 a unit.

“I would assume that any old building in Miami Beach is being targeted for this,” said Arnaud Karsenti, a developer with 13th Floor Investments.

The company has partnered with Related Group in offering a bulk buyout to residents at Castle Beach Club, a 570-unit oceanfront condo in Miami Beach built in 1966. That building received an unsafe structure violation from the city of Miami Beach last year that required emergency shoring. Mr. Karsenti said that in addition to that deal, he is working on four other condo terminations.

Edgardo Defortuna is a developer and chief executive of Fortune International Group, which is in the process of acquiring two condo buildings after successfully terminating two others. That includes his plan to build a St. Regis-branded residential development in Sunny Isles, with 435 feet of ocean frontage, in place of a complex that he and a partner acquired for \$113 million in 2014.

“The collapse of the Champlain Towers has opened everyone’s eyes,” Mr. Defortuna said.

Still, not everyone is thrilled with this approach, especially when they feel their building is in good condition. While many residents say they are happy to get paid above market price for their units, not everyone wants to move or leave the neighborhood.

Some buildings require as little as 75% of its residents to vote in favor of termination, but other properties can require every single owner to agree to the plan. Sometimes the documents that govern a particular condominium are unclear, sparking litigation between developers and owners.

At Carlton Terrace, Related Group and Two Roads Development have valued the condo at \$126 million in many of the contracts to buy out the unit owners, according to residents. So far they have bought out all but six owners, who are in litigation with the developers in a dispute over whether the holdouts have blocking power.

Phil Listengart, an owner at Carlton Terrace who agreed to sell his unit last year, now regrets it. While he declined to say what price he negotiated, he said that the market has heated up since then. The price he committed to is about 40% to 50% less than what it would take to buy oceanfront property in the area.

“There was an overwhelming consensus from the owners to sell, and we were just dragged along by the stampede,” he said Saturday while he and his wife, Janie, packed up their belongings.

At the Castle Beach condominium, Related Group and 13th Floor Investments have made an offer of \$500 million to buy out the unit owners in bulk. The developers are offering more than \$750,000 for studio units—a windfall for owners who bought in the late 1990s, when units sold for around \$55,000, according to residents.

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For Adriana Pazos, who owns a cafe and convenience store at Castle Beach, the offer isn't as good. Developers are offering \$385,000 to buy her out.

"This store is my entire livelihood," she said. "But if we don't get sold and we don't pass our recertification, the city could shut down the building and then we all lose."

She lives next door at a smaller condo building called Galeria, where she owns a three-bedroom unit that developers are offering more than \$2 million to buy. That offer, she is happy about.

"Some will win, and some will lose," she said. "Maybe it's for the best. These things happen for a reason."