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Surfside Collapse Spurred Talk Of A Condo Buyout Wave. Then The Market Turned

July 21, 2023 | Matt Wasielewski, South Florida 

The collapse of Champlain Tower South in [Surfside](#), Florida, in June 2021 [killed 98 people](#) and reverberated across the state's coastal communities, leaving condo owners at older properties with questions about the safety of their home.

Some owners looked for a way out and, in the months that followed, developers began negotiations to acquire at least eight condo buildings. But as the cost of acquisitions, insurance and development skyrocketed in the last year, potential buyers have become less interested in negotiating with dozens or hundreds of individual owners on a sale that could take years to execute.

Even as some deals stall or fall through, there's an expectation that new rules passed in the wake of the Champlain Tower collapse could shift the dynamic again and lead to a surge in condo building acquisitions.

"Condo buyouts are probably the single hardest real estate feat to accomplish," said [Jaime Sturgis](#), the CEO of [Native Realty](#) who has worked on several buyouts and likened the process of negotiating with a wide range of owners to solving a Rubik's Cube.



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Condo buyouts are some of the most complicated transactions to execute, said Native Realty CEO Jaime Sturgis, likening the process to solving a Rubik's Cube.

It's incredibly challenging as you can spend a ton of time, resources and legal dollars getting through what you believe to be everybody, and then there's just a couple holdouts that can kill the deal,” Sturgis said.

In the last decade, the Florida Department of Business and Professional Regulation tracked more than 400 condo terminations as of February, [according to The Wall Street Journal](#). But not even Miami’s beachfront property is immune to the slowdown in [capital markets](#) and development driven by increased costs at every stage of development. “It paused the development just because of the economics, between the cost of capital going up, the cost of insurance doubling and tripling year-over-year, and then the cost of construction also going up,” Sturgis said. “It's very difficult to pencil around on [multifamily construction](#) right now.”

The rising costs have left developers to re-examine potential purchases, and in some cases pull out of deals.

Owners at the 10-story condo-hotel Casablanca at 6345 Collins Ave. brought in a [Colliers](#) team last year to sell the 350-unit property. Owners thought they had found a buyer in the family of Richard Meruelo, a private investor and

developer, which began negotiating a \$200M buyout that had the backing of 95% of unit owners.

But the buyer backed out last month, with Colliers telling owners the deal fell through because of “continued difficulties [and] uncertainty in the capital/debt markets,” [The Real Deal reported](#).

The deal’s collapse is indicative of both the tighter economic environment and a shift in South Florida’s market dynamics, with a rise in the number of [condo associations](#) looking to find a buyer.

“More recently, there has been a lot more activity initiated by condominium associations and unit owners themselves,” said Jose Rodriguez, a partner at the law firm Rennert Vogel Mandler & Rodriguez who has advised clients on condo terminations. “In the past, that was not the case.”

Many associations are reacting to upcoming changes to the laws governing condo inspections and repairs. In the wake of the Surfside collapse, last May the Florida state legislature passed Senate Bill 4-D in a bid to help ensure that properties were safe to occupy and condo associations were setting aside enough money for repairs.



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A potential buyer of the Casablanca condo-hotel at 6345 Collins Ave. in Miami Beach backed out of a \$200M buyout, citing difficulties in the debt market as the reason.

Starting in 2025, condo associations will be required to conduct structural integrity reserve studies every 10 years at their properties. When structural deficiencies are discovered, associations will also be required to set aside money for repairs. If a roof will need to be replaced in 10 years at a cost of \$1M, for example, condo owners will be required by law to contribute \$100K annually to raise the funds to do the repairs.

Florida law didn't previously require condos to conduct reserve studies, and associations were previously allowed to waive or reduce reserve contributions through a membership vote.

“Unit owners often exercised this ill-advised option to keep assessments as low as possible and/or to avoid paying for major components scheduled to be repaired or replaced, which they contemplated would be after the sale of their units,” Kevin Koushel, an attorney at Blizin Sumberg, [wrote in an analysis of the law](#).

“The new legislation is truly a ‘time to pay the piper’ moment for older condominiums where skipping a reserve study, and/or waiving or reducing reserves has been an annual tradition,” Koushel wrote.

This could get expensive for owners facing large assessments to fix deficiencies at their property. For retirees on fixed income and those whose condos are vacation homes, the costs could effectively price them out of their properties.

“Because of the changes to the condominium statute, it should be safer, but more expensive, to live in condominiums,” Rodriguez said. “Condo owners are beginning to understand that in the next year and a half, their assessments may go up, and in some cases substantially.”

Rodriguez and Sturgis said that most condo owners at older properties haven't yet had to confront this new reality. They expect that high assessments would likely lead to future sales.

“With condo associations, everybody has a tendency to kick the can down the road,” Sturgis said. “And that's what's happened with a lot of these buildings

for a very long time, and it's allowed them to accrue tremendous amounts of deferred maintenance.”



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A group of 10 owners has sued to block the demolition of the Biscayne 21 condo tower in Edgewater after Two Roads Development acquired most of the property's units.

While the prospect of a large bill coming due could motivate some sellers, condo terminations require developers to achieve a critical mass of unit owners to make the sale. While Florida law only requires 80% of unit owners to agree to terminate a condo association, it also allows as few as 5% of owners to block an acquisition. Some condo associations also require a higher percentage of owners to buy in, in some cases requiring unanimous support.

That makes executing a condo termination a risky endeavor, one that can be scuttled by a handful of owners who are loath to sell.

At Biscayne 21, a 192-unit condo building built in 1964 in [Edgewater](#), [Two Roads Development](#) is experiencing what happens when a handful of residents revolt. Ten owners there filed a lawsuit in May to block the demolition of the property, where Two Roads is planning to build a three-tower luxury condo branded by [Marriott International](#)'s Edition.

They allege that Two Roads illegally changed the threshold required to approve a buyout from 100% of owners to 80% of owners after the developer

acquired enough units to have a controlling vote at the condo association, [The Real Deal reported](#).

Two Roads said that 95% of the building's unit owners accepted its purchase offer, but the lawyer representing the 10 owners seeking to block the demolition said the developer's offer price for each of the remaining units was "ridiculously low," TRD reported. A spokesperson for Two Roads didn't respond to *Bisnow's* request for comment.

Despite the complicated process and inherent risks of acquiring individual condos to create a development site, developers looking for beachfront properties to build luxury real estate have few other options in a region as densely built out as South Florida.

Hundreds of condo buildings, representing more than two-thirds of condo properties in the Miami area, are either more than 40 years old or approaching that vintage, [according to The Wall Street Journal](#), which is when [Miami-Dade County](#) ordinances require building recertification. While development costs remain high and home sales have declined from pandemic peaks, luxury condos are still [in demand](#) in South Florida. If the economy avoids recession and market sentiment improves by 2025 when the changes to the condo rules go into effect, there's an expectation that, despite the challenges, more condo buyouts are on their way.

"If inflation is under control and interest rates begin to stabilize, the economic environment will be even more favorable for the South Florida real estate market," Rodriguez said. "Additionally, upon some of the changes to the condo law becoming effective in 2025, there should be an increase in condo terminations in Miami."

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