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Mending 'fractured condo conversion' in Orange

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Orlando-based *Smith Equities Real Estate Investment Advisors* recently helped close on one of the area's first large-scale purchases of a stalled condo-conversion project.

Darrell H. Johnson and Kevin C. Miller of Smith Equities' special assets disposition group represented [Winter Park Residences Corp.](#) in the acquisition of the 209 unsold units in the 256-unit Summerlin at Winter Park Condominiums.

The new owners will complete renovations and begin leasing and sales of newly remodeled apartments in the [Goldenrod](#) Road project, creating a hybrid housing complex, Miller said.

"We're working on some others, but these are difficult to close," Miller said of the partially completed conversions, known in the industry as "fractured condo conversions."

Formerly known as Savannah Grand, the property was converted to condos in March 2006 by [Hialeah](#)-based *Puig Inc.* After the condo market stalled, Puig filed for Chapter 11 bankruptcy protection in May 2007, and included the property in the filing.

The Summerlin was sold out of bankruptcy by *Banco Popular*, which held the senior debt. The price was \$11.8million.

"Fractured condo conversions represent a unique challenge to sell," said [Robert Smith](#), president and founder of Smith Equities. He said his company has "worked through the intricacies" of dealing with courts, banks and the complicated condo documents to tackle the market.

Smith said managing the mixture of individual owners and renters in a fractured condo conversion also presents challenges for the investor. Generally, both a sales staff and leasing staff must be actively selling or leasing unsold units.

Conversions result in higher property taxes that need to be appealed to reflect the lower value of reverting to rentals, Smith said. Accounting practices also must take into account shared costs and operation of the property between the investor and condo association.

Despite the challenges, Johnson said the fractured condo market offers opportunities for investors who take the time to understand the market and how to get the deals financed.

He said many potential buyers "are still waiting on the sidelines" looking for "fire-sale" prices, even though deals already can be negotiated at prices below unit-replacement costs.

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