WINDY CITY SHUFFLE

A series of condo 'deconversions' in Chicago is beginning to draw attention, both good and bad.

By Mike Ramsey
Photography by Patsy McEnroe

CONVERSION CONTROVERSY. Multiple offers have been made to buy out owners of River City Condominiums, a mixed-use complex completed in 1986 along the South Branch of the Chicago River, and convert the community into apartments. If the conversion goes through, it would be one of many to occur in the Windy City in recent years.

Whether he likes it or not, condominium owner Bob Olsen has been swept up in Chicago's "deconversion" craze.

The retired exchange broker had just moved into River City Condominiums in 2015 when he learned the company that owns the commercial segment of the mixed-use complex wanted to buy its 450 residential units and turn them all into apartments.

Under Illinois law, a buyer can effectively force the sale of a large condominium building if 75 percent of the association approves a bulk sale, provided the declarations do not call for a higher margin of support.

"That was news to me," says Olsen, who purchased a total of three condominium units at River City, a futuristic Bertrand Goldberg-designed development in the South Loop he had long admired. "I think it's basically a license to steal property. I know those are strong words. It just invites corruption, in my view."

Olsen voted against multiple offers, which reportedly were in the $90 million range. In October, he was among a group of plaintiffs who sought to apply the brakes when it was announced buyers had finally received the necessary level of support. The condominium board countersued to make owners comply with the purchase. A settlement was pending at press time.

BITTERSWEET SALE? Ninety percent of condominium unit owners in 732 Bittersweet Way, in the city's lakefront neighborhood of Buena Park, approved the offer of $16.2 million to convert the building into rentals. Owners stood to make double the market value for their one-bedroom or studio units.

MOST DECONVERSIONS have gone comparatively smoothly, without legal action or public outcry. In fact, owners typically have received a financial premium to part with their condominium units. This unusual cycle in Chicago has been driven by a demand for multifamily rental stock and the aforementioned Illinois law that sets an attainable trigger to acquire an entire condominium property.

Now, the question seems to be: How long can this continue?

"The low-hanging fruit has pretty much filtered through the market," says David Goss, co-founder and managing principal of Chicago's Interra Realty, which has brokered at least 10 bulk sales worth nearly $100 million on behalf of condominium associations since 2015. "The secret's out, but that doesn't matter. There are still a lot of deals happening."

He says his firm's expertise in the real-estate niche began with an inquiry about a condominium building in the lakefront neighborhood of Buena Park. The 101-unit structure at 732 Bittersweet Way had been converted into condominium units in the early 2000s but was morphing back into rentals.

"This building had a huge number of renters. We were almost at 50 percent who were just investors, and they were looking for an exit," Goss says.

Interra Realty fielded proposals from interested buyers and took a $16.2 million offer to owners. Association members stood to make double the market value for their one-bedroom or studio units, Goss says. About 90 percent of the ownership approved of the sale, he says.

"When we valued it as commercial real estate we realized that, 'Hey, this is more than what the individual building units have listed for in five years,'" Lexia Krown, a condominium association member at the Bittersweet Way property, told *Crain's Chicago Business* in 2017.

UNCOMMON OCCURRENCE, ONCE

For years, the termination of condominium associations was rare, anywhere. Perhaps the most frequently cited anecdote was the demise of Naranja Lakes, a South

OVER THE RIVER. Bob Olsen is among a group of River City owners who filed a suit to halt the sale of the complex. The community's commercial owner reportedly has offered residential owners around $90 million. Among the significant capital expenditures River City owners face is a leaky atrium roof.

Florida condominium association that was leveled by deadly Hurricane Andrew in 1992.

The Illinois Condominium Property Act dates back to 1963. State lawmakers may have had catastrophic events in mind when they included a bulk-sale component, sometimes referred to as "Section 15."

"I think when the Condo Act was initially contemplated, the law didn't imagine that some entity could create an offer that would be so lucrative that existing owners would jump at the chance to get out," says Chicago attorney Howard S. Dakoff, a fellow in CAI's College of Community Association Lawyers (CCAL).

Dakoff, who has worked on several deconversions, says the current Windy City craze has its origins in the recession of a decade ago. At that time, some newly completed condominium projects were transformed into apartment buildings out of necessity (Florida also saw a burst of deconversions for the same reason.).

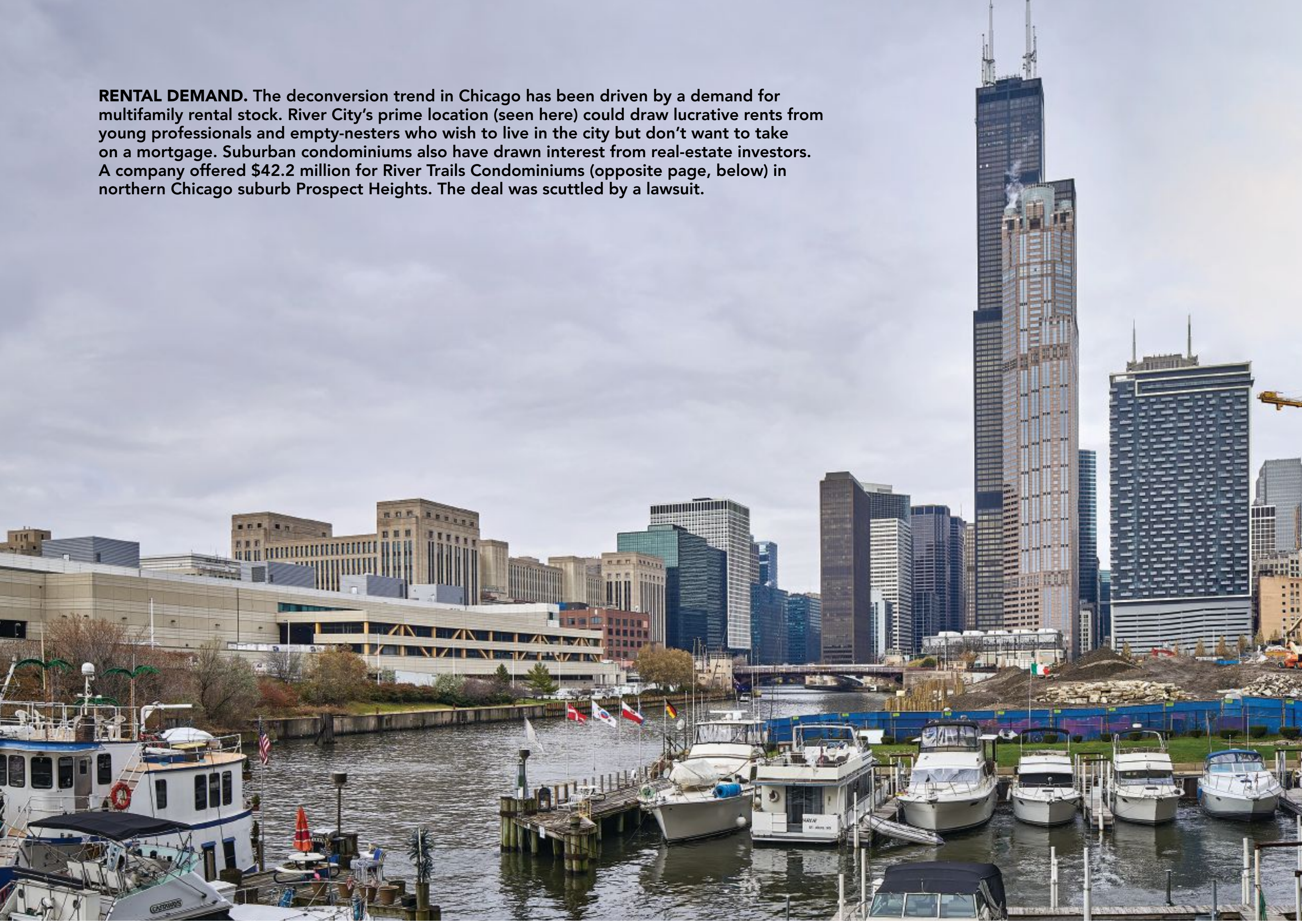
"Banks took back the bulk unsold units," says Dakoff, a partner at Levenfeld Pearlstein. "Developers started to buy those units and thought, 'If I own 95 percent of the units, why don't I buy the other 5 percent and deconvert?' In the last five years, it's switched to opportunistic buyers, with the trend kind of hitting a fever pitch in the last two years."

New construction of rental property, especially Class A stock around Chicago's Loop, has been healthy of late. Many deconverters seem to be looking in outlying neighborhoods for older condominium buildings to acquire and upgrade, if they can do it at a cost that is reasonable to them.

Like River City, many of these sought-after Chicago properties started off as apartment buildings before being converted into condominiums under previous market conditions. These structures now may require significant capital expenditures that owners prefer to avoid. Olsen notes his concrete-facade building, completed in 1986 along the South Branch of the Chicago River, has a beautiful indoor atrium that, unfortunately, leaks.

"There are always buckets in the atrium. It's not dangerous or anything, I've just learned to live with them," he says.

As Class B rental stock, these revamped condominium buildings can still draw lucrative rents as apartment towers. Potential tenants range from young professionals to empty-nesters who wish to live in the city but don't want to take on a mortgage.



RENTAL DEMAND. The deconversion trend in Chicago has been driven by a demand for multifamily rental stock. River City's prime location (seen here) could draw lucrative rents from young professionals and empty-nesters who wish to live in the city but don't want to take on a mortgage. Suburban condominiums also have drawn interest from real-estate investors. A company offered $42.2 million for River Trails Condominiums (opposite page, below) in northern Chicago suburb Prospect Heights. The deal was scuttled by a lawsuit.

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Dakoff says buyers in the transactions he's worked on have been real estate investment trusts, or REITs, while Goss says his firm has dealt with established companies that own and manage large apartment buildings in Chicago and nearby suburbs.

"You're looking at all sorts of multifamily investors that are looking at new vehicles by which to obtain assets for their portfolios. It's just a new line of stock that maybe they weren't thinking about years ago," says Chicago lawyer David Bloomberg, principal at Chuhak & Tecson, who has worked on several deconversions in the past four years.

Not surprisingly, Goss says, the easiest properties to acquire have been buildings where there is a significant percentage of investors. He says they are more likely to accept an offer if there is enough of a profit involved, whereas an owner-occupant has the added concern of figuring out where to live before closing.

In many cases, Goss says, building buyers will agree to lease to residents for up to a year at a preferred rate.

"There are some landlords who don't want to have these holdovers, these cheap rents, but that's the price you have to pay. It's a deal-sweetener," he says.

There are other potential sticking points. Some condominium unit owners may have invested significant money in their residences and insist they deserve more money than a neighbor who hasn't. Goss says he tells these owners, simply, "You need to look at this in a vacuum. Are you getting enough money to make you happy?"

"(Associations) get a lump sum offer, and it's split by percentage ownership," he adds. "Because if you start doing something else, it's a can of worms, and you'll never close."

DECONVERSION DOWNSIDES

That's the way it's supposed to work. Olsen and others who legally challenged the sale of River City Condominiums claimed some owners were being offered side deals to secure their support.

"I had a lot of voicemails, let's put it that way," Olsen says, when asked if he was approached.

His group engaged Bloomberg, who typically has represented condominium boards or developers. The attorney declined to discuss the case or the pending settlement between his clients and the River City board, but he stressed transparency is paramount in deconversions: "Especially under the statute in Illinois, where you're looking at a high number of unit owners who will be forced to sell their building against their stated will."

That, of course, is the obvious flip side of deconversion: Somebody usually gets pushed out. Investor-owners who are effectively forced to sign their units away (presumably at a profit) is one thing, but displacing owners who occupy their units is another.

"It's a difficult conversation," concedes Goss, the Chicago broker who also advocates keeping association members well-informed. He adds: "We represent the board. We have to do what we have to do."

The counter-argument to criticism about deconversions is that unit owners literally buy into an uncertain landscape at a condominium. Members have always faced the possibility that significant changes can be made in their declarations through a supermajority vote.

Nonetheless, the potential expulsion of several residents at a north suburban condominium complex became a rallying point for opposition to its proposed sale.

Real-estate company VennPoint sought to buy out members of the River Trails Condominiums in Prospect Heights for $42.2 million. The deal was scuttled after a legal-aid organization, Open Communities, filed a lawsuit in September on behalf of more than 60 families. The suit argued, among other

WEIGHTED VOICE. At River Trails, and other communities like it, there have been concerns that investors who hold multiple units have more votes and, thus, a greater say in the destiny of a community than the owners who live there.

things, that the board did not follow the law while considering the sale.

Sheryl Ring, director of fair housing for Open Communities, sees fundamental problems with deconversions, including the weighted votes wielded by investors who hold multiple units. These landlords end up having a greater say in the destiny of a community than the owners who actually live there, she says.

"You have a bunch of people—mostly elderly, people of color, Hispanic families—everything they own is tied up in these units. You start trying to sell this out from under them, and they lose their life savings," Ring says. "And then you have an investor who doesn't live there who comes along and says, 'Well, I stand to make a few million dollars, so I'm going to force everybody to sell.' "

Bob Levin, president of the River Trails condominium association board, owns or has a stake in 12 units in the community. When several parties expressed an interest in buying the complex, Levin says, the board had a fiduciary duty to explore a potential sale. It engaged a broker, and an offer was being distributed to members when the lawsuit effectively killed the deal, he says.

"I never pushed it. I never said, 'Do it, or don't do it,' " Levin says.

CHANGES COMING?

Florida state law previously was silent on the bulk sale of condominium buildings, but in the throes of the recession, legislators approved a measure allowing the deals if at least 80 percent of the ownership approves. The purpose was to help transform distressed condominiums into apartment buildings, says Ellen Hirsch de Haan, a CCAL fellow with the Tampa firm of Wetherington Hamilton.

"The other side of the foreclosure crisis after the crash was all of these people lost their homes, and they needed someplace to live. There was a brand-new market for rental," she says.

There were problems. Lawmakers received complaints that owners in some cases were being muscled out of their homes, sometimes at a financial loss. So, Florida legislators added a poison-pill component of sorts. Now, if at least 5 percent of the ownership opposes a sale, it is automatically voided.

A would-be condominium buyer in Florida must wait two years before making another offer on the property, which prevents owners from being bombarded. Illinois, by contrast, has no such restriction; buyers can keep coming at boards and owners. Voting periods can drag on, too, depending on the size of the condominium.

There are some consumer protections in Section 15 of the Illinois Condominium Property Act. Proceeds from a building transaction, for example, must set aside funds for the deficit portion of underwater mortgages and the moving expenses of opponents. If they feel they are being lowballed, owners also have recourse to choose their own appraiser, which could lead to a third evaluation and joint decision by the professionals.

Illinois state lawmakers reached by *Common Ground* say they don't rule out future changes, including the raising of the threshold that forces a sale, from 75 percent to 85 percent of ownership.

Olsen, the River City condominium owner, says making deconversions tougher for buyers would be a good idea.

He and his spouse planned on staying at their unique building—as renters, if not owners. He says he expects to come out ahead financially after parting with his three condominium units, which he renovated. Still, the experience of getting caught up in a deconversion has soured him.

"Let's put it this way: I'm never buying a condo again," Olsen says.

The deconversion cycle in Chicago won't last forever. Eventually, the cost of bulk-buying a condominium building will exceed the amount of money purchasers stand to make by renting out units over several years.

And, yes, it's possible that some of these newly deconverted buildings will one day re-enter the real-estate market as condominiums again—de-deconversions, if you will.

"Whenever the market conditions warrant the owner to sell it for a large enough profit, they'll sell it," says Dakoff, the Levenfeld Pearlstein attorney. **CG**

Mike Ramsey is a Chicago-based freelance writer.