

Riding the Conversion Wave

After learning that conversion would deliver nearly 25 years of rental cash flow in just one year. The Kislak Organization took the plunge. Now, it is dealing with competition from condos re-entering the rental pool.

BY CYNTHIA WINE

Driving through his South Florida neighborhood late in 2004, The Kislak Organization's President Tom Bartelmo saw people lining up by the hundreds and sleeping outside overnight, just waiting to sign on the dotted condo line. "There were people waiting in line for days," Bartelmo said. "Developers were handing out pizza to keep people happy while they waited."

With that kind of seeing-is-believing evidence, it did not take a cadre of real estate analysts or a stack of market research to sell Bartelmo on the idea of converting his firm's recently purchased South Florida apartments to condos.

"We had a better property and a better location than many of the condo conversion projects we saw around us," Bartelmo said. "We knew we had a real opportunity."

The Kislak Organization is a century-old real estate investment, management and brokerage firm based in South Florida that specializes in buying and managing apartment communities. When Kislak purchased two South Florida properties in 2003 and 2004, the plan was for long-term holds. But after seeing the crush of condo buyers and running an analysis that showed converting the condos would deliver nearly 25 years of rental cash flow in just one year, Kislak decided to take the plunge.

The move brought financial rewards, new perspectives and insight



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from looking at the condo craze from the inside. Kislak also found its apartment expertise was beneficial in the process.

Sandra Lachter, Kislak's Vice President for Operations, was involved in preparing the properties for conversion.

"As an apartment operator, we are always very in tune with what people are looking for in a home scenario for a rental, and with a purchase it's not that much different," said Lachter, who has 20 years of community management and marketing experience. "The atmosphere and ambiance of the community is key. People are looking for a feeling of comfort and a place to call home."

Multitasking With Multihousing

Bartelmo said his team decided to manage the conversions itself, but looked to experts for assistance.

"We outsourced the sales and contracting," Bartelmo said. "We found good people to do quality work rather than try to take it all on ourselves."

Both Broward County properties were attractive, had plenty of amenities and were well-located. All 230 apartment homes at Colonnades closed between April 2005 and October 2005. At Citation Way, closings began in September 2005 and 15 months later, just one of the 271 apartment homes remained. The final closing took place in May 2007.

Despite this success, there was no plan to move away from the firm's core business of owning and operating apartments, Bartelmo said. The high demand for condos in South Florida at the time, and the fact that Kislak is headquartered in Miami Lakes, Fla., contributed to the firm's decision to do the conversions and to the success of the effort.

"It's still a rental community while you're converting, even with a quick conversion," Bartelmo said. "We were able to efficiently manage working with residents, selling to them in some instances and helping them get moved, while we implemented upgrades to the property and managed the expenses."

Kislak decided not to convert apartment communities it holds in Pensacola and Jacksonville, Fla.; or in Las Vegas, Dallas and Tucson, Ariz.

"We decided to maintain our apartment communities in our

other markets," Bartelmo said. "One reason we converted the South Florida properties near our headquarters was because we wanted to make sure we understood the process thoroughly before doing it remotely. After going through the management-intensive process, we felt the market turning in South Florida and elsewhere and we didn't want to end up with broken conversions or projects with long sales lives."

Along the way, like other apartment owners and operators, Kislak has had to deal with the impact the condo craze and crash have had on the rental market.

"In 2005 and 2006, the condo craze took a lot of units offline and diminished the supply of rental units in South Florida and other key cities," Lachter said. "That made apartment rentals a very attractive part of the business to be in and promoted rental rate growth, high occupancy and a strong rental market. During that time, no concessions were needed."

Re-Entering the Pool

Lachter said she and her apartment managers are now dealing with competition from condos that are re-entering the rental pool.

"What we're seeing today is condo conversions that have stopped and gone back to conventional apartment operations, and cases where speculators weren't able to flip the property and the condos are now in the hands of realtors," Lachter said. "These shadow markets are wreaking havoc."

She notes that in Tucson and Phoenix, many conversion projects were halted and those properties are offering tremendous concessions. And in Las Vegas, where conversions were especially prevalent, the market is impacted by owners offering extremely low rents to generate revenue.

"The shadow market is hard to deal with," Lachter said. "It truly comes out of the shadows. With traditional submarkets, they're established, you know them, and they play by the rules as professionals, but the shadow market hops in and does whatever it needs to do because the owner needs some kind of revenue."

The Kislak community management staff works hard to keep its finger on the pulse of the competition, and Lachter offers the following "musts" for staying on top of the market:

- Conduct weekly, semimonthly and monthly market



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competition surveys, calling all of the competition to find out about specials and rental rates. Lachter advises calling Wednesday afternoon or Thursday morning to prepare for the weekend leasing traffic.

- Keep in touch with apartment locators and realtors who are handling shadow market rental properties for small independent community owners.

- Follow up with the people who visit the community, but don’t lease; you need to know where they’re going and why.

“There’s no easy way to track the shadow market,” Bartelmo said. “You have to talk to residents who leave, check the newspapers and online listings for unusually high rental listings at condominiums and do a lot more legwork.”

Setting Rents

Matching the shadow market rents is not an option, Bartelmo said, but concessions can be offered, and he believes the services offered by traditional rental communities will win

Kislak: At a Glance

The Situation: The Kislak Organization staff use their condominium and apartment management expertise to stay on top of the newest challenges in the housing market.

The Background: Condo conversions are slowing and cases where owners weren’t able to “flip” properties are now in the hands of Realtors. These “shadow markets” have introduced new challenges to rental communities.

The Bottom Line: Communities should consider offering concessions—24-hour service, fitness centers, resident activities and apartment amenities—to attract and maintain residents, rather than lowering rent to match the shadow market.



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many renters back.

Fully staffed offices with business hours, full-time maintenance personnel with 24-hour emergency service, valet curbside trash service, plus business cen-

ters, fitness centers, swimming pools and organized special events and activities for residents are often attractive apartment amenities.

"I've known office staffers to stop by to

collect rent in person, escort residents who need assistance to attend community events and go by an apartment to let a resident's dog out when the person is running late," Lachter said. "It's the kindness and personal touches that come from developing a rapport with the onsite staff."

She added that, in many cases, apartment office personnel will accept packages and mail for residents, assist with permitted access to apartments for services such as cable hook-up and furniture delivery and even water plants and keep an eye on apartments when people are away.

"Renters who go with the shadow market route will discover there's no onsite maintenance, no manager to call and that even at a better price, it's not a great deal," Lachter said in offering encouragement to her colleagues. "In the short run, renters are jumping into this, but like every other market that goes up and down, this shadow market will level off."

Although more conversions are not in Kislak's immediate plans, Bartelmo said he believes the firm's successful condominium experience has long-term benefits.

"Now we know apartments and we know condominium conversions," he said. "That, combined with our capital, market knowledge and staff, enhances our ability to pursue new ventures. Right now, we're proactively contacting lenders who may have problem condominium deals and offering our services to find solutions that will help put people in homes and reduce the shadow market." ■

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