

Turning trashed developments into real estate treasures

BY BRIAN BANDELL

When Arnaud Karsenti strolls through overgrown lots near plundered remains of unfinished homes or tours barren parking lots of half-built townhomes, he doesn't see desolation.

What Karsenti sees is an opportunity to make it suitable for buyers – with some profit margin, of course.

The managing principal of Miami-based 13th Floor Investment, Karsenti is among a wave of developers and investors that are picking properties and loans off the foreclosure scrap heap. While the transactions often come at significant discounts, scrubbing the properties clean of neglected pasts can present major challenges.

Karsenti's 13th Floor Investments has been working with Louisville, Colo.-based Real Capital Solutions to acquire distressed home and condo projects in South Florida. Real Capital Solutions provides the dollars and 13th Floor contributes a minority investment and expertise on the ground. The partners have started raising money for a \$50 million fund to buy distressed Florida real estate.

Their focus was badly needed for the Enclave at Blackpoint Marina, a single-family home project in Homestead, to which Karsenti's group acquired the defaulted mortgage in 2009. At the time, the property had been abandoned for two years. It had 46 partially completed homes, and even the finished homes were in bad shape. The appliances and air compressors had been stolen, and the wiring had been pulled from walls, 13th Floor principal Robert Suris said.

"Ninety percent of the contractors originally involved with Enclave were out of business," he said. "We rebid the work and started from scratch."

The group also created a homeowners association.

After agreeing to an uncontested foreclosure with the original developer, 13th Floor needed to price the homes to compete with the short sales and foreclosure sales that were dominating the market. Marcos Egipciano, president of Miami-based brokerage Sovereign Real Estate Group recommended homes be priced at \$88 to \$99 a square foot. The homes range



MARK FREERKS

Robert Suris and Arnaud Karsenti of 13th Floor Investments at the Enclave at Black Point Marina in southwestern Miami-Dade County.

from 2,000 to 2,500 square feet. He also helped buyers secure Federal Housing Administration approval for smaller down payments, which were covered by the \$8,000 home-buyer tax credit.

The existing homes sold out.

"People make the mistake of thinking there is no demand for housing," Egipciano said. "There is no demand above a certain price. We only get into a situation where we can sell product at affordable pricing."

The group sold the 194 remaining lots in Enclave to Miami-based Lennar Corp. Given the low cost of construction – about 25 percent less than during the building boom – Karsenti said Lennar could probably build new modest-sized homes that compete in price with older distressed homes.

Buying properties at deep discounts paired with low construction costs also enabled 13th Floor to offer townhomes at Dania Beach's The Oaks at Hidden Harbour for less than the cost of new construction, Karsenti said. Waterfront townhomes are being offered for \$150 a square foot after Karsenti's

group acquired the project's defaulted loan from Regions Bank.

Karsenti said the Hidden Harbour deals should work well because the borrower agreed to a friendly foreclosure and the homeowner association was in relatively good shape.

CC DEVCO'S COOPER CITY PLAN

CC Devco, a partnership of developers Armando Codina and Jim Carr, purchased Monterra in Cooper City out of the bankruptcy of TOUSA. They paid \$33.4 million for the 500 acres, but sold 75 acres to Minto Communities for \$7.4 million.

CC Devco obtained a \$6 million loan from Coral Gables-based Gibraltar Private Bank & Trust to build homes on the remaining land.

Andres Miyares, executive VP at CC Devco, said the new homes are competitive with foreclosure sales. "We feel that a brand-new home is a better option than a resale," Miyares said.

The developer will soon start construction of the clubhouse – with gym, pool and conference room.

The Four Seasons at Delray Beach – formerly known as Tivoli

Isles – is also getting an amenities makeover, courtesy of K. Hovnanian Homes, which bought the defaulted note from Fort Lauderdale-based BankAtlantic in 2009. It finished the clubhouse, spruced up the entrance and cut the grass on the 122 uncompleted home sites.

"It's about bringing a community back to market that has been stigmatized by failure," said Mark Hodges, president of the South Florida region for Red Bank, N.J.-based K. Hovnanian.

One of the first things Hodges said the company did was to meet with the 155 homeowners already living in the community. He said K. Hovnanian assured them that their formerly ailing homeowners association would be supported.

"They have to like us to encourage other people that they meet to come there," Hodges said. "Forty people volunteered to serve on our ambassadors club to talk to prospective buyers. Clearly, it is in their interest to have other people buying and paying HOA fees."

K. Hovnanian has sold 20 of the 32 partially completed homes it bought in the deal. For preconstruction home sales, it has added two custom designs to the original four designs built for the project. Homes in Four Seasons start at \$130 a square foot, compared to the \$175 a square foot being asked by competing new developments, Hodges said.

This deal is working so well that K. Hovnanian is preparing to close on acquisitions of several other distressed communities in South Florida, Hodges said.

Buyers are generally more cautious about signing deals in the wake of the real estate meltdown, Hodges said. K. Hovnanian has its own mortgage company that prequalifies buyers for loans.

Toll Bros. is also prequalifying buyers at Boca Raton's Azura, an estate home project it bought out of foreclosure from Regions Bank in 2009. While the basic presale agreement hasn't changed, the developer has offered to custom build homes there, said Alex de Chabert, assistance VP of the Southeast Florida division of Toll Bros.

Azura was planned for 92 homes, but only seven were originally sold. Prices originally started at \$1.6 million, but Toll Bros. has brought that down to the \$900,000s.

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FROM DISTRESS TO SUCCESS



MONTERRA
Cooper City

■ **Original developer:** TOUSA Homes
 ■ **Buyer:** CC Devco purchased out of bankruptcy case of TOUSA
 ■ **Price:** \$33.4 million in February 2009
 ■ **Turnaround strategy:** Build new single-family homes; sell land to Minto Communities



AZURA
Boca Raton

■ **Original developer:** Polo Field Estates/Gordon Homes
 ■ **Buyer:** Toll Bros. purchased a \$43.1 million foreclosure judgment in December 2009
 ■ **Price:** Undisclosed
 ■ **Turnaround strategy:** Marketing custom-build homes



ENCLAVE AT BLACKPOINT MARINA
Homestead

■ **Original developer:** Quail Hunter Trail/Intac Enterprises
 ■ **Buyer:** An affiliate of Real Capital Solutions and 13th Floor Investments purchased a \$21 million foreclosure judgment in July 2009
 ■ **Price:** Undisclosed
 ■ **Turnaround strategy:** Finish and sell partially completed homes; sell vacant home sites to Lennar Corp.



FOUR SEASONS DELRAY BEACH (FORMERLY TIVOLI ISLES)
Delray Beach

■ **Original Developer:** Home Devco Tivoli Isles
 ■ **Buyer:** K. Hovnanian Homes bought a defaulted \$40.7 million and proceeded with the foreclosure
 ■ **Price:** Undisclosed
 ■ **Turnaround strategy:** Finish and sell partially completed homes; market new homes; rebrand community

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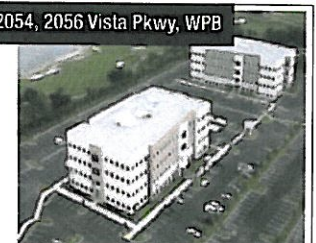


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