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### Shoreline Towers condo association plans to be a buyer in foreclosure market

#### Homeowners group would rent them out until market improves, then sell units

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Shoreline Towers Condominium is tired of fretting over the double-whammy of falling property values and lost assessments as foreclosures pop up in its building.

Deciding it has had enough, the board of Shoreline's homeowners association is taking matters into its own hands by knocking on neighbors' doors and asking them to approve a novel plan that would make the homeowners association a landlord in its own building.

Foreclosure problems aren't unique to Shoreline. Homeowner associations in Chicago, its suburbs and throughout the country are dealing with the fallout of foreclosures and the crippling effect they can have on operating budgets, capital reserves and building cachet. For some, the recourse has been to delay building maintenance and improvement projects. For others, the answer has been found in raising assessments, a move that could backfire among owners already stretched thin financially.

At Shoreline Towers, a 378-unit building along the lake in the city's Edgewater neighborhood, where there's recently been an average of 12 to 14 foreclosures at any given time, board members are trying a new tack. If they receive the required 66 2/3 percent majority approval needed from owners, the association will buy up to eight foreclosed condos during the next two years and rent them as apartments until the housing market improves. Then they'll resell them.

That may take several years, given the economy's ills and the glut of condos in Chicago, many of which are for sale by investor-owners, developers and lenders at rock-bottom prices. But Shoreline's experiment, if it works, could offer an alternative to well-capitalized associations elsewhere.

"A significant number of associations could entertain this idea," said David Hartwell, a Chicago attorney who counsels Shoreline's association as well as many others in Chicago. However, he added, "There are some associations that are so far behind the eight ball already that they don't have the capability of doing this even if they want to."

The board's plan was crafted over the past five months as the housing industry's meltdown landed on its doorstep. According to board President Edward Frischholz, average sales prices of units that sold in the building this year have ranged from \$95,000 to \$135,000, down \$15,000 to almost \$44,000 from what similar units sold for, on average, during the past four years.

Foreclosed, empty units also mean lost assessments, at least initially. With an average monthly assessment of \$500, Shoreline's association is short at least \$6,000 a month from a dozen foreclosures.

One of the foreclosed units the board seeks to buy, priced by the lender at \$115,000, had a four-year average sales price of more than \$217,000. Because that unit is listed on a multiple listing service, the association's planned purchase would lower



comparable sales in the building, a point Frischholz concedes. Likewise, other purchases also would affect the comparable sales figures.

"It does, but what other alternative do we have," said Frischholz, who has owned in the building since 1989. "At least we're acquiring an income-producing asset. If units start selling for 50 cents on the dollar, that means other units start selling for less too. This was an evolutionary process we undertook to protect our property values."

So far, proxies are running 9-1 in favor of the board's proposal.

The plan is not without risks. As part of a separate refinancing, the association has negotiated a \$2.5 million line of credit to make the cash purchases. If the units don't rent for sufficient sums, the association could be jeopardized, noted Shirley Feldmann, whose Association Advocates Inc. works with homeowner associations.

Nevertheless, if it can make the numbers work, she credits Shoreline's association for acting like a corporation, not the loosely knit group of homeowners she finds in other buildings.

"They need to remember that their association is a business," she said. "If they take the value of their units and add it up, that's the value of the corporation."

Shoreline's board thinks its plan will work for a number of reasons, chief among them the "right of first refusal" clause contained in Shoreline's condo declaration. It gives the association the right to turn away a prospective buyer and purchase a property for the same price. The \$115,000 foreclosure, for instance, was to be purchased by someone else before the board intervened.

Such clauses, which some buildings have done away with, are thought to keep riff-raff out of a building, and Frischholz acknowledges that the board wants owners who can afford higher prices.

"The bank will put whoever they can get in there," he said. "We don't want to have another person who is going to get foreclosed on."

Another plus going for Shoreline is its location on North Sheridan Road, just a block south from Loyola University Chicago's Lake Shore campus, which gives it a pool of potential renters.

Shoreline, built in the 1960s, also has its financial condition in its favor. Cash reserves are half of what they once were but still stand at \$600,000.

While the plan wasn't originally intended as a marketing tool, real estate agents say if approved, it could help sales in the building.

"If I was buying into that building, I would feel stronger about it, and I can definitely say that to a client," said Eva Bergant, an @Properties agent who has a listing in the building. "They're taking their own financial security into their own hands."

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