The Washington Post

Maryland Politics

Condominiums in crisis: Financial troubles put many communities at risk

By Bill Turque September 18

For five summers, a tarp has covered the swimming pool at Grand Bel II, a condominium community in Silver Spring that has no money for lifeguards, chemicals or insurance. The Vistas at Washingtonian Woods in Gaithersburg faces $600,000 in repairs but has just $400,000 in cash reserves.

At Saxony Square in Alexandria, an unemployed man nine months behind on his mortgage negotiates with lenders to keep his two-bedroom condo. His neighbors struggle to pay their monthly fees; since 2010, Saxony's board of directors has filed more than 80 court actions to try to collect such assessments.

Even as posh condos rise in trendy neighborhoods around the nation's capital, many older complexes are mired in a recession that never ended. A cycle of aging infrastructure, limited resources and foreclosure is putting these communities in a deep financial hole, threatening what traditionally has been an affordable path to homeownership for the working class.

Monthly fees, the financial lifeblood of condo developments, have risen sharply as boards try to generate cash for long-deferred maintenance and to cover basic expenses. As a result, more owners can't make their payments, and fewer prospective owners can afford to buy in.

At the same time, tightened lending rules, and a reluctance among banks to foreclose on units that will be hard to resell, have boosted the number of long-vacant condos in many complexes, further depleting the flow of fees that pay for utilities, trash collection, upkeep and repairs.

"These communities are suffering desperately," said Vicki Vergagni, community manager at Glen Waye Gardens in Silver Spring. "This is potentially a great type of housing that is affordable. But public policy has not foreseen the issues it's created."

A broken model

Grand Bel II, a 1960s-era complex off Georgia Avenue and Bel Pre Road, "is not the Ritz," as former property manager Eric Cooper put it. But it has been a sturdy launchpad for immigrants and young families.

Bulgarian-born Aneta Lefterov purchased her two-bedroom in 2010 for $106,000, a bargain price, flattened by the housing bust. She took advantage of a Federal Housing Administration-insured loan, allowing her to make a low down payment, and was able to stretch her salary as a workforce consultant for the state of Maryland to cover her mortgage payment and the $490 monthly fee.

"Basically I like it," said Lefterov, 53, "if there wasn't this problem."

The problem is the condo economic model, in which your neighbors are also your business partners, obligated to pay their share of common expenses.

Even before Lefterov moved in, there were signs of distress. As the economy deteriorated, more Grand Bel II owners had trouble paying their bills. To forestall mortgage default, many opted to stop paying monthly assessments. Routine maintenance was put on hold. The pool stayed empty; weeds poked through cracks in the tennis court.

The board took out a $1 million bank loan to address a serious drainage problem, which depleted cash reserves. Monthly fees ticked upward: $550, then $592, then $655. The board levied a special one-time assessment of between $800 and $1,200 for each unit.

"We're going to get to the point where we won't be able to pay," Lefterov said.

Cooper, whose parents lived at Grand Bel II in the 1970s, said that by 2014, the amount owed by owners at least four months behind in their fees was in the mid-six figures. He recently took a less stressful job, on the advice of his physician.

At 44-year-old Kimberly Place in Aspen Hill, Md., about a dozen households are at least 30 days late on monthly fees. "You can't continue to raise assessments," property manager Eugenia Mays said. "You reach that magic tipping point, and then five more people can't pay and become delinquent."

But the bills are piling up. County inspectors ordered many of the development's 76 balconies removed last year because of rotting supports that created an "imminent danger" of collapse. Pressure from groundwater caused basement foundation walls to fail in at least seven units, and the $750,000 repair was not covered by insurance.

Condo owners say some of the financial problems are the result of poor decisions made by the elected boards that run condominium corporations and that often lack experience or are reluctant to displease neighbors.

Alyson Meiselman, board president of the Vistas at Washingtonian Woods, said previous leaders didn't raise monthly fees for 20 years after the 152-unit development opened in 1992.

A 2012 engineering study estimated that $600,000 was needed to repair poor grading, tripping hazards, retaining walls and crumbling parking lots. Past boards had set aside only two-thirds of that amount. To try to bridge the gap, the current board has hiked fees 33 percent on average, to between $325 and $600 a month.

At Hermitage Woods in Silver Spring, previous boards raised fees but failed to set aside money for repairs. Other money simply disappeared, residents said.

The 43-year-old building has been without a working elevator for at least eight months. Segments of the outside walkways are off-limits because of rusting supports. A roofing contractor who was paid tens of thousands of dollars went out of business before finishing the repair.

The board has increased monthly fees to finance the elevator repair, which residents hope will begin soon.

"It's pretty bad," said Heidi Rodriguez, 35, who carried groceries up five floors while pregnant this spring and summer. She pays a $450 monthly assessment, up from $125 nine years ago.

Lending problems

Condo communities have been hurt by both the subprime lending practices that triggered the housing bust, experts say, and some of the steps regulators took to address those practices.

Nationally, residential foreclosure rates have retreated to 2006 levels, according to RealtyTrac, the real estate research firm. But in places that went all-in on condos — building new ones and converting existing rental apartments — foreclosures remain an outsize presence.

"You have people who should not have been given loans because they couldn't afford to pay the loans and associated expenses," said Rockville attorney Tom Schild, who represents condo governing boards.

Mohamed Mohamed, a soft-spoken Sudanese American linguist who worked for a U.S. contractor in Iraq, said he put down only $5,000 when he bought his $205,000 two-bedroom condo in Alexandria's Saxony Square in 2005. "They just want to get you," he said of lenders during the boom.

He hasn't had steady employment since 2011. In mid-July, he was nine months behind on his mortgage and negotiating to stave off foreclosure on the apartment where he lived with his wife and young son.

In Montgomery County, condominiums are 15 percent of all housing stock. But from January 2015 through July of this year, they comprised 44 percent of the county's 6,059 foreclosures. During the same period in Fairfax County, 47 percent of 2,602 foreclosures were condos — even though condos represent just 28 percent of homes. In Alexandria, condos are 47 percent of 42,000 residences but 63 percent of foreclosures.

The torrent of defaults that accompanied the housing bust led the FHA to tighten its guidelines for issuing loan insurance. Those changes, too, have affected the financial health of condo communities.

Before 2008, the FHA approved prospective condo buyers based on their individual financial stability. The new rules required that an entire community meet a minimum level of solvency.

The agency will not provide loans for condo communities if at least 15 percent of current owners are 60 days or more behind on their monthly fees. The FHA also requires that a community's cash reserves be equal to at least 10 percent of its annual budget.

Those shifts means no FHA loans at places like Grand Bel II and Hermitage Woods, driving up the cost of a mortgage and shrinking the pool of potential buyers.

Nearly 60 percent of Montgomery County's 440 condominium communities have lost FHA certification or allowed it to expire. Nationwide, HUD records show, about 75 percent of all condominium developments lack approval.

"There's something wrong with a system when 75 percent of a group don't qualify," said Vergagni, the community manager at Glen Waye Gardens. "They've set up rules that are unrealistic."

Housing advocates and condo board members say lenders also hurt condo complexes by failing to quickly process foreclosures and offer units for resale. Such "zombie foreclosures" are especially prevalent in cases where the value of the property is less than the balance on the loan, critics say.

"Some of these units have dropped more than 50 percent in value, so [banks] sit on them and hope that the markets come back," said Jackie Simon, a Montgomery County real estate agent and housing activist.

In Maryland, foreclosures once moved swiftly through the legal system, sometimes in 35 days or less. When the recession hit, state lawmakers passed measures to slow the process for owners, adding “speed bumps” that included mediation.

While the changes gave distressed borrowers more protection, they also created a foreclosure backlog, saddling condo complexes with vacant units that perpetuate blight and can’t generate the all-important monthly assessments.

Nationstar, the Texas-based mortgage giant, foreclosed on unit 503 at Hermitage Woods last September, buying it at auction for $77,400. A year later, it remains padlocked and dark.

Kelly Ann Doherty, a Nationstar spokeswoman, said it takes two to five months for a foreclosure deed to be processed and recorded. Doherty said the company had a potential buyer for the unit earlier this year who was unwilling to wait for the deed to be recorded. She said another offer is pending and that the company has paid condo fees that were due.

Search for solutions

Lawmakers and public officials have started to address pieces of the problem.

President Obama signed broad housing legislation this summerthat includes provisions requiring the FHA to relax some of its requirements for condo certification.

In January, the Montgomery County Council approved a measure requiring members of condo boards to complete an online course detailing financial and administrative responsibilities.

The county has also moved its Commission on Common Ownership Communities, which adjudicates disputes in condo communities and homeowner associations, from the consumer affairs department to the housing agency. Officials say the shift, and funding for an extra investigator, will help the commission be more proactive in overseeing the governance and financial health of condo communities.

Last year, the council passed a law that denies condo owners the licenses required to rent out their units unless all common ownership fees are paid.

Some experts say better oversight and tighter restrictions are not enough, predicting that some complexes could deteriorate to the point where government agencies will have to intervene.

"Without significant changes, you're going to have cities and states condemning and taking over these properties," said Natalie Stewart, president of a California-based condominium consulting firm.

Christopher Anderson, chief of the community development division for Montgomery County's Department of Housing and Community Affairs, said such a scenario was "not outside the realm of possibility" but added that the resources available to local government are limited.

"We cannot as a county responsibly lend money to condo associations to fix problems," he said.

County officials are exploring whether to partner with an affordable housing nonprofit that would buy underwater or foreclosed units at Grand Bel II, then sell those units to solvent owners.

In the meantime, youngsters who live at the complex spent another summer running past the closed swimming pool.

"I feel for the children," said Luzia DaSilva, a condo owner at Grand Bel II for 13 years. "Every year, they ask me, 'Is the pool going to be open?' "

Bill Turque, who covers Montgomery County government and politics, has spent more than thirty years as a reporter and editor for The Washington Post, Newsweek, the Dallas Times Herald and The Kansas City Star. Follow @bturque