

The Condo Conversion Manual

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Permanent Weekend™

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About this Book

I organized this book as a step-by-step guide to a condo conversion, with the general timeline of an actual project in mind. So, instead of having sections, there are stages, and each chapter—with some exceptions—represents a step in the process. In a sense, the layout of the book can serve as checklist of sorts as you proceed with your own conversion, though I highly recommend reading the entire book before starting a project of your own. That said, if you're in the middle of your project right now and bought this book to guide you through the rest of the process, you could probably find the stage you're in the middle of, and pick up from there.

Each stage begins with an overview and consists of at least four chapters in that process. They are mostly in order, though that doesn't always apply. You'll find that some chapters are a half a page long, while others are three or more pages. Rather than consolidate a few short chapters into one, I felt that it was important for each step to stand on its own, regardless of the detail involved.

The book ends with a short section on ethical development practices, and some closing thoughts. Lastly, you'll find a comprehensive glossary with all the various industry jargon and terms you'll encounter throughout the book.

I do repeat myself from time to time throughout the different stages and steps, and that's for four reasons:

1. The topics overlap a lot, so it's hard to contain ideas into one step or another.
2. I do have a tendency to repeat myself.
3. Certain points are important enough that they bear repeating. I don't want you to miss them because you skimmed some step or another.
4. I do have a tendency to repeat myself.

You'll notice that I tend to use fairly colloquial, conversational language. Not only is it more fun for me to write that way, it's often easier to read. More importantly, I find that it's easier to learn when the language doesn't get in the way. If I speak like a regular fellah, then maybe you can relate to what I say a little better, and retain what I say more easily.

Throughout the book, I continually refer to spreadsheets, forms, and other tools that can be found on the CD or the main condo kit website in the members only log in section at www.thecondokit.com. I strongly encourage you to jump right in and start playing with all those tools right away. Put fake numbers into the spreadsheets so you can see how the numbers flow

through those spreadsheets and, ultimately, through to the bottom line of the entire project. Watch how one minor change here can make a dramatic difference way over there. The more you play with these tools, the sooner you'll wrap your brain around how a successful condo conversion really works.

This entire manual and kit are both continual works in progress. Please feel free to write us an email at info@thecondokit.com if you have any ideas that could make the book or kit better; features or tools—for either the book or the kit—that were missing that you wish weren't; additional knowledge, wisdom, or resources to add to what's already here; criticism (ideally of the constructive sort, but I'll take whatever) or problems with the content, style, presentation, resources, tools, or anything else; testimonials or other good things to say about the book or kit that I could add to the Testimonials page; questions that weren't answered that perhaps I could add to the FAQ page; typos, grammatical errors, or larger mistakes (I have no idea why, but I get a small thrill every time I correct an error of any sort); or if you simply want to say hi.

While I don't want this to turn into an advertisement by any stretch, I would like to mention that I do take on the occasional condo conversion investor as a real estate client. I also take on the occasional regular real estate investor as a client. When I'm not accepting new clients, I will refer them to colleagues of mine who are far smarter than me on the subject of condo conversions and real estate investing, but don't happen to be as good at writing as me. Ha! Anyway, if you are interested in working with me or one of my brilliant colleagues, please feel free to email me at info@thecondokit.com, put "Potential Client" in the subject line, include a brief description of what you are looking for, and, please, don't forget to include your name, phone number, and the best time to call.

Lastly, check back in to the main company website at www.permanentweekend.com to find other in-depth, niche, real estate investing products and manuals like the one you just purchased. More are being added all the time. For that matter, if you have any ideas for new manuals, kits, and/or products that you'd like to see offered in the future, please let me know, and I'll see what I can do. Don't be shy. Really. I decide what project to work on next by what my readers and customers request. If I get enough requests for a specific book or product, then I know there's a need that could be filled, and that's what I choose to create next.

OK, I promise, that's the end of the shameless self-endorsements and advertising. Now, on with the show!

Introduction

“Now we know! And knowing is half the battle.”
-End segment of every *G.I. Joe* cartoon episode

Coughing water all over my keyboard, I finally managed to ask, “What do you mean ‘We’re a hundred grand over budget and only halfway through the project,’?!? That’s... that’s not possible.”

An uneasy, nauseous feeling began to bloom in the pit of my stomach as my business partner went over the details of our now-empty budget for our first condo conversion project. Mistake after mistake was made—I knew this already—but I had no idea of the scope. What followed in the coming weeks and months was a scramble to come up with cash infusions, desperate applications for new lines of credit, refinances of our own homes, and calls to potential investors. We finally made it through with a lot of luck, some very long days, and even longer sleepless nights.

In the end, we still made out OK on our profits, paid for with many new grey hairs, but it was worth it for the education alone. In the process of totally botching and then fixing my first conversion project (yes, it was largely my fault for not getting fixed-cost bids before starting and, thus, grossly underestimating the construction costs), I finally stumbled my way through to the right way to do a condo conversion, as opposed to whatever it was I was doing when I started. With the help of my business partners, assistants, contractors, friends, and colleagues, I developed the knowledge, systems, and tools to profitably complete a condo conversion project with a minimum of headaches in the shortest time possible. I wrote this book and created this kit so you can avoid the mistakes I made and more easily swim with bigger fish in a bigger pond.

The better you educate yourself, the less likely you will be to drown or be swallowed up when you jump into the big and foreign pond that is condo conversion investing. So, learn everything you can before you begin (provided that you do still eventually begin). For that matter, never stop learning. Become a true expert and watch your profits increase.

There are several ways to learn everything you need to know in order to do a condo conversion, or master any other subject for that matter. The best, but most costly, method is to just jump in with both feet and try it yourself. Sooner or later, the time will come for you to do that. Before that day arrives, however, it makes sense to employ the other methods as best you can.

Reading every book you can on commercial and residential real estate investing can make a big difference too. I highly encourage you to do this. Unfortunately (for you), to my knowledge no other books have been written solely and exhaustively on the narrow and complex subject of how to complete a condo conversion. Kudos to you for finding and buying the only consumer resource in existence. True, you can find development and consulting companies that will handle a project like this for you, but they tend to be prohibitively expensive: their fees far exceed the margin on most projects, and these companies only operate in specific locales anyway. But I digress.

Another highly effective method to educate yourself is to find a mentor. If you know of or can find a good candidate, you should nurture that relationship as best you can. Good mentors are few and far between, so always keep your eyes peeled for one. Even if you are already an experienced investor, try to find a mentor at the next level beyond your own who can help you grow. Many of the smartest and richest investors in the world *still* have as many mentors as they can find. For the rest of us, we all must start somewhere, and networking with investors in your area can be a great way to find potential mentors.

Until the day comes when you find your own mentor, you'll have to fly solo without one. Fortunately, you don't necessarily have to know your mentors personally. Many of my own mentors include people and resources I've never met, some of which aren't even people. Robert Kiyosaki and his board games *Cashflow 101* and *Cashflow 202* have served as great mentors for me, and I go back and reread his books and play the games whenever I feel I need a financial wisdom refresher. The Complete Condo Conversion Kit, with its manual, spreadsheets, forms, and other resources can serve as your own personal mentor in the niche market of condo conversions.

I don't want to sound like I'm trying to over-sell the benefits of this kit and manual—after all, you already bought it—but boy I sure wish I had something like this when I first started. But I didn't, and as a result, you now do. If it does its job, you'll be halfway to expert status yourself by the end of the book, and the only thing left to do at that point is to finally do a conversion yourself.

Stage One

Make yourself an Expert

“A good plan today is better than a perfect plan tomorrow.”

-Robert De Niro in *Wag the Dog*

In This Section

Condo conversions are not for the weak-willed or faint-of-heart. They are a very complex and involved form of real estate investing that should not be taken up lightly. Fortunately, when executed correctly, they can be extremely profitable. Thorough preparation and education is crucial to your success.

In this section, you'll learn the basics of what a condo conversion actually is, why they are so darned profitable, the difference between a regular business plan and a financial business plan, how to get yourself organized for a conversion project, tips on improving your credit, how to analyze neighborhoods and properties, and the basics of tax planning for real estate investors. There is also a list of must-read books to help further your education on real estate investing.

Chapter 1

Why Condo Conversions Work

Let's start with the basics. What exactly *is* a condo conversion? What does that really mean? A condo conversion is when you buy an apartment building (or, in rare cases, a collection of houses all sold together on one lot for some reason), have it legally sliced up and split into separate condos, and then sell them separately for a profit. There's obviously a lot more to it than that—otherwise I wouldn't have needed to write a whole manual and create a whole kit about it—but that's it in a nutshell.

Now, when I say slice the building up, I mean that you'll be buying an entire building, and then having a lawyer legally split it into separate condos, all belonging to a Home Owners Association (HOA), which is also sometimes referred to as a Common Interest Community (CIC). Whereas the apartment building was once one single property, with one legal description and title, owned by one person, partnership, or entity, now the building is not a single property anymore. It is several, separate, individual, autonomous properties, all with different owners, different legal descriptions, and so on. This is how all condos exist. Some condos were simply created that way from the get-go, and others had to be split up from an apartment building.

There is an equal number of ways to make money investing in real estate as there are investors out there doing it. There is also an equal number of ways to lose money, when those same methods are employed incorrectly. So what makes condo conversions special? Well, mostly because the margins for a conversion can be quite large, allowing a developer to quickly turn over a building for a big profit while completing comparatively little work. Below, you'll find out why.

Increased price per square footage

The primary reason condo conversions work for investors is that multi-unit apartment buildings (especially commercial ones, which mean five units or larger) sell for about half to two thirds what condos sell for in the same neighborhood. In a condo conversion, we make our money on that spread. As long as the rehab, mortgage interest, commissions, and other costs are covered, there is often a large margin left over by simply changing the use

to condos. That, in a nutshell, is what a condo conversion is and why it's so darned profitable.

Movement back to cities

Many of the folks moving back to cities are twenty to forty-somethings: yuppies, hipsters, singles and childless couples—basically the condo-buying crowd.

Increased demand for condos

This depends on the city and local markets, of course, but many areas, especially in or near city centers, are experiencing a lot of demand for condos. True, inventory is high, but lots of units are moving. The ones that don't move quickly and have to drop prices are often the average, mediocre units. That's why you typically want to go higher end.

There are a couple of reasons why demand is high for condos in many cities right now:

1. In many urban neighborhoods, people are buying condos instead of big homes these days. They don't want the larger payment of a big house, they don't want to take care of lawns and building maintenance, and many people want to live in a pedestrian-friendly urban environment.
2. Cheap interest rates for condo buyers help drive up demand on the selling part of our equation. Regardless of what you may or may not hear in the media, rates are still at or near historical lows.

Low demand for multi-unit properties

There is less competition for unit properties (especially the bigger ones) because they are more expensive, typically require a larger down payment, and rarely attract owner-occupants like smaller properties do. This helps keep the price down relative to residential properties such as single-family homes, duplexes, and condos.

In short...

Condo conversions can generate a lot of cash in a short period of time for ambitious investors. Granted, they've gotten a lot of negative media attention in certain metro areas in places like California and Florida, largely because some large-scale developers didn't do their homework and ended up over-building hundreds of condos in areas that couldn't absorb the influx, which happened at the same time as the national housing crunch *and* subprime mortgage market implosion both hit. Stuff like that makes great headlines, and people love reading about how bad real estate investing is. Don't be discouraged, however, because everything I wrote in this section still holds true. For an investor who carefully does his or her homework, lots of profit can be had investing in condo conversions in many, many markets around the country and the world, even in the supposedly darkest of times. I know, because I'm doing it myself. Let the cynics have their cynicism, while you quietly continue to make your fortune one deal at a time.

Chapter Two

Write Your Personal Business Plan

Your condo conversion is a true business, so you need a traditional business plan to make it go smoothly. A business plan helps you know what course you are working to be on, and it helps you to stay on that course. It forces you to think about, decide, and commit to paper what you are trying to do, why, how, when, with whom. It forces you to get specific. It forces you to make goals and break them up into smaller steps. It forces you to be accountable and actually take those steps. It helps you know what values you stand for and how to put those values into practice.

Completing a condo conversion is more than just real estate investing, it is a business. For that matter, every kind of real estate investing should be thought of as a business. Running a business without a formal business plan is financial suicide. That would be akin to flying an airliner without a flight plan. Flying without one is very dangerous and you'll be asking for trouble, so take the time to write a business plan. Not only should you write one for you conversion project, you write one for any other investing you do and any other business you create.

You need to have two business plans for your condo conversion from the very beginning. The first is for you, and possibly for your investors or partners. This is a regular business plan that includes your budget, timeline, marketing plan, bios of key players, and all the other stuff you'll find in a typical business plan. The regular business plan is a forward-looking, long-term, living document. You don't just create it and forget it. You revisit and rewrite it often. You look at it at least once a month. It grows and changes as your goals, key players, and market do.

The second business plan is a more specific plan for the banks and investors from whom you hope to get money. This version of the business plan is more of a sales presentation, a well-designed snapshot of how great you and your project are. You'll create this once at the beginning of each conversion project, and use it to show bankers or potential investors that A. You and your team know what you're doing, and B. The project will be very profitable. The idea is that after seeing it they'll want to lend you money or invest in your venture. You'll learn all about this one in Stage 3, Chapter 1: "The Financial Business Plan."