Senate Engrossed House Bill

condominium termination; unit owners; percentage

State of Arizona
House of Representatives
Fifty-fifth Legislature
Second Regular Session
2022

CHAPTER 373

HOUSE BILL 2275

AN ACT

AMENDING SECTIONS 33-1227 AND 33-1228, ARIZONA REVISED STATUTES; REPEALING LAWS 2021, CHAPTER 405, SECTION 51; RELATING TO TERMINATION OF CONDOMINIUMS.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:
Section 1.  Section 33-1227, Arizona Revised Statutes, is amended to read:

33-1227.  Amendment of declaration
A.  Except in cases of amendments that may be executed by a declarant under section 33-1220, by the association under section 33-1206 or section 33-1216, subsection D, or by certain unit owners under section 33-1218, subsection B, section 33-1222, section 33-1223 or section 33-1228, subsection D, and except to the extent permitted or required by other provisions of this chapter, the declaration, including the plat, may be amended only by a vote of the unit owners to which at least sixty-seven per cent of the votes in the association are allocated, or any larger majority the declaration specifies.  The declaration may specify a smaller percentage only if all of the units are restricted exclusively to nonresidential use.  The declaration may also provide that the consent of the declarant is required to an amendment during any period of declarant control pursuant to section 33-1243.  Within thirty days after the adoption of any amendment pursuant to this subsection, the association shall prepare, execute and record a written instrument setting forth the amendment.
B.  An action to challenge the validity of an amendment adopted by the association pursuant to this section shall not be brought more than one year after the amendment is recorded.
C.  An amendment to the declaration shall be recorded in each county in which any portion of the condominium is located and is effective only upon recordation in the same manner as required for the declaration under section 33-1211.
D.  Except to the extent expressly permitted or required by other provisions of this chapter, an amendment shall not create or increase special declarant rights, increase the number of units or change the boundaries of any unit, the allocated interests of a unit or the uses to which any unit is restricted, in the absence of unanimous consent of the unit owners.
E.  An amendment shall not terminate or decrease any unexpired development right, special declarant right or period of declarant control unless the declarant approves.
F.  Amendments to the declaration required by this chapter to be executed by the association shall be executed on behalf of the association by any officer of the association designated for that purpose or, in the absence of designation, by the president of the association.
Sec. 2.  Section 33-1228, Arizona Revised Statutes, is amended to read:

33-1228.  Termination of condominium
A.  Except in the case of a taking of all the units by eminent domain, EXCEPT AS PROVIDED IN SUBSECTION B OF THIS SECTION, A condominium
may be terminated only by agreement of unit owners of units to which at
least eighty percent of the votes in the association are allocated, or any
larger percentage the declaration specifies, EXCEPT:

1. IN THE CASE OF A TAKING OF ALL THE UNITS BY EMINENT DOMAIN.
2. IF the declaration may specify specifies a smaller percentage,
   BUT only if all of the units in the condominium are restricted exclusively
to nonresidential uses.

B. A CONDOMINIUM CREATED ON OR AFTER THE EFFECTIVE DATE OF THIS
AMENDMENT TO THIS SECTION MAY BE TERMINATED ONLY BY AGREEMENT OF UNIT
OWNERS OF UNITS TO WHICH NINETY-FIVE PERCENT OF THE VOTES IN THE
ASSOCIATION ARE ALLOCATED, OR ANY LARGER PERCENTAGE THE DECLARATION
SPECIFIES, EXCEPT AS PROVIDED IN SUBSECTION A, PARAGRAPH 1 OR 2 OF THIS
SECTION.

C. At least thirty days before recording a termination agreement,
the board of directors of the association shall convene a regular or
special meeting of the board of directors at which a person or entity that
purports to have the agreement of at least eighty percent the percentage
of the votes in the association specified in subsection a or b of this
section, as applicable, or any larger percentage if required, shall
produce and make available to the unit owners copies of a signed notarized
statement that the owner of a unit has executed a termination agreement.
The person or entity shall produce copies of a statement for each unit
owner who has agreed to the termination, or may produce the signed
termination agreement that includes a sufficient number of unit owners.
Any meeting called pursuant to this subsection shall be noticed as
otherwise provided by law, except that the board may not take action by
written consent or any other method that does not provide for an actual
meeting that is open to all the unit owners. Any termination agreement
that is recorded without full compliance with this subsection is invalid.

D. An agreement to terminate shall be evidenced by the
execution or ratifications of a termination agreement, in the same manner
as a deed, by the requisite number of unit owners. The termination
agreement shall specify a date after which the agreement will be void
unless it is recorded before that date. A termination agreement and all
ratifications of a termination agreement shall be recorded in each county
in which a portion of the condominium is situated and is effective only on
recording.

E. A termination agreement may provide that all the common
elements and units of the condominium shall be sold following
termination. If, pursuant to the agreement, any real estate in the
condominium is to be sold following termination, the termination agreement
shall set forth the minimum terms of the sale.

F. The association, on behalf of the unit owners, may contract
for the sale of real estate in the condominium, but the contract is not
binding on the unit owners until approved pursuant to subsections A, and
B. C AND D of this section. If any real estate in the condominium is to be sold following termination, title to that real estate on termination vests in the association as trustee for the holders of all interest in the units. Thereafter, the association has all powers necessary and appropriate to effect the sale. Until the sale has been concluded and the proceeds of the sale distributed, the association continues in existence with all powers it had before termination. Proceeds of the sale shall be distributed to unit owners and lienholders as their interests may appear, in proportion to the respective interests of unit owners as provided in subsection G I of this section. Unless otherwise specified in the termination agreement, as long as the association holds title to the real estate, each unit owner and the unit owner's successors in interest have an exclusive right to occupancy of the portion of the real estate that formerly constituted the unit owner's unit. During the period of that occupancy, each unit owner and the successors in interest remain liable for all assessments and other obligations imposed on unit owners by this chapter or the declaration.

E. G. If the real estate constituting the condominium is not to be sold following termination, title to all the real estate in the condominium vests in the unit owners on termination as tenants in common in proportion to their respective interests as provided in subsection G I of this section, and liens on the units shift accordingly. While the tenancy in common exists, each unit owner and the unit owner's successors in interest have an exclusive right to occupancy of the portion of the real estate that formerly constituted the unit owner's unit.

F. H. Following termination of the condominium, the proceeds of any sale of real estate, together with the assets of the association, are held by the association as trustee for unit owners and holders of liens on the units as their interests may appear. Following termination, creditors of the association holding liens on the units that were recorded before termination may enforce those liens in the same manner as any lienholder.

G. I. The respective interests of unit owners referred to in subsections B, E and F, G AND H of this section are as follows:

1. Except as provided in paragraph 2 of this subsection, the respective interests of unit owners are the fair market values of their units, limited common elements and common element interests immediately before the termination, their pro rata share of any monies in the association's reserve fund and the operating account and an additional five percent of that total amount for relocation costs. An independent appraiser selected by the association shall determine the total fair market values. The determination of the independent appraiser shall be distributed to the unit owners and becomes final unless disapproved within sixty days after distribution to the unit owner. Any unit owner may obtain a second independent appraisal at the unit owner's expense and, if the unit owner's independent appraisal amount differs from the
association's independent appraisal amount by five percent or less, the higher appraisal is final. If the total amount of compensation owed as determined by the second appraiser is more than five percent higher than the amount determined by the association’s appraiser, the unit owner shall submit to arbitration by an arbitrator affiliated with a national arbitration association and under the rules of that association at the association's expense and the arbitration amount is the final sale amount. As part of the arbitration process, the appraisers shall fully disclose their appraisal methodologies and shall disclose any other transaction occurring between the buyer and the sellers. An additional five percent of the final sale amount shall be added for relocation costs.

2. If any unit or any limited common element is destroyed to the extent that an appraisal of the fair market value of the unit or element before destruction cannot be made, the interests of all unit owners are their respective common element interests immediately before the termination.

H. J. Except as provided in subsection I K of this section, foreclosure or enforcement of a lien or encumbrance against the entire condominium does not of itself terminate the condominium, and foreclosure or enforcement of a lien or encumbrance against a portion of the condominium does not withdraw that portion from the condominium. Foreclosure or enforcement of a lien or encumbrance against withdrawable real estate does not of itself withdraw that real estate from the condominium, but the person taking title may require from the association, on request, an amendment excluding the real estate from the condominium.

I. K. If a lien or encumbrance against a portion of the real estate comprising the condominium has priority over the declaration, and the lien or encumbrance has not been partially released, the parties foreclosing the lien or encumbrance, on foreclosure, may record an instrument excluding the real estate subject to that lien or encumbrance from the condominium.

J. L. The provisions of subsections C, D, E, F, H and I E, F, G, H, J AND K of this section do not apply if the original declaration, an amendment to the original declaration recorded before the conveyance of any unit to an owner other than the declarant or an agreement by all of the unit owners contains provisions inconsistent with these subsections.

K. M. Beginning on August 3, 2018, any provisions in the declaration that conflict with subsection G I, paragraph 1 of this section are void as a matter of public policy.

Sec. 3. Repeal

Laws 2021, chapter 405, section 51 is repealed.