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Condo projects find footing

New array of less stringent lenders helps buyers, and gets developments moving again

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By Candace Taylor

New condos -- the black sheep of the real estate industry for much of 2009 -- are finally beginning to move again as construction progresses and developers find ways to circumvent stiff presale requirements for mortgages.

For example, the Tempo condominium in Gramercy, which sat virtually buyerless for months after it went on sale in September 2008, sold 10 units this summer. In Lower Manhattan, District on Fulton Street sold 10 units in August alone. The Fairchild at 55 Vestry Street in Tribeca, which had sold only one unit in April and none in February or March, put five units in contract in August and even saw a bidding war, the developer said.

"Deals are getting done at new developments," said Stephen McArdle, the principal of brokerage Urban Marketing, which is handling sales at District. "We're seeing activity. Six months ago you weren't seeing anything. The fact that the bottleneck is open is very encouraging."

While new condos are still far from possessing their boom-time seductiveness, they are slowly regaining some of their former desirability, experts say.

The reason for this shift is multifaceted. Fueled by discounted prices and low interest rates, the residential sales market as a whole has picked up.



Rolan Shnayder of Home Owners Mortgage, which has been lending in a number of new condo buildings that are less than half sold

Buyers who once worried that new condo towers would never get built are now, in many cases, able to see the finished product.

And perhaps most important, brokers and developers are finding ways to combat the biggest obstacle to new condo sales: the lack of available mortgages, with Fannie Mae requiring that 50 to 70 percent of units in a new development be sold before it will back loans in the building.

To escape this problem, savvy developers are eschewing traditional "preferred lender" relationships with large national banks and increasingly relying on an array of portfolio lenders and mortgage banks, which can provide mortgages to buyers even if only a small percentage of units have sold.

As a result, while getting a mortgage in a new condo is still difficult, well-qualified buyers are now finding it's far from impossible.

"If you have assets, you can fairly easily get a loan at a bank, irrespective of the percentage sold in the building," said Allison Scollar, head of the real estate practice at law firm Guzov Ofsink. "The banks are less nervous."

For more than a year, financing has loomed as a major concern for potential buyers, even those with steady income and good credit. That's especially true at new condos, where it's been nearly impossible to get a mortgage unless at least half the units in a building have sold.

"When [buyers] walk into a sales office and the building is under 50 percent sold, the first question is, 'Love your product, how can I get it financed?'" said Rolan Shnayder, director of new development lending at Manhattan-based mortgage bank Home Owners Mortgage.

Against this backdrop, new developments have struggled disproportionately.

Tempo, which went on sale just as the financial markets imploded last year, is a prime example, said broker Bertrand Buchin, a senior vice president at Prudential Douglas Elliman, which is handling sales and marketing at the 19-story condo.

By December, only one of Tempo's 103 units had gone into contract. The drought only grew worse as the sponsors, Quantum Partners and Irish home builder Menolly Group, began a series of legal squabbles. But as progress was made on construction this summer -- and prices fell even more citywide -- units started going into contract.

"Activity really picked up," Buchin said. "It's much more exciting for us in the sales center, as opposed to the last eight months, when people were looking, complimenting us on the features and that was the end."

While many new projects have stalled, those now nearing completion are seeing sales improve, Scollar said.

"Before, there wasn't even a building; now, you actually get to walk in," said Scollar, who

worked on four sales contracts at new developments in August. "The fear factor is down because you do see what you're buying."

Another key factor at Tempo is that buyers can now get mortgages, despite the fact that only 10 percent of units there have sold. Buchin said he sold a one-bedroom last month to a woman after putting her in touch with Brooklyn-based Fairmont Funding, a private mortgage banker. The terms of her loan require only 25 percent of the units in the building to be in contract by the time she closes, a much smaller hurdle than the 50 percent required for many lenders. Buchin said he expects the building to have no trouble hitting that marker.

Mortgage banks like Fairmont are becoming more of a go-to financing option for developments, brokers said. Much like mortgage brokers, mortgage bankers shop around for the best rates for clients, but underwrite and fund the loans themselves before selling the closed loan packages to investors. Because they evaluate the borrowers on a case-by-case basis, they have the flexibility to write mortgages in buildings that are less than half sold, as long as the borrower has a strong debt-to-income ratio, explained Shnyder of Home Owners Mortgage.

Shnyder said his company can close loans as long as the condo plan has been declared effective (meaning at least 15 percent of the units are in contract). That's provided a big advantage in the current market, he said.

He said he's focused mostly on new developments lately, and while the 20-year-old company typically does about \$1 billion a year in loans, it's on track to double that this year after working with buyers at projects like the Aphorp, 80 Metropolitan, One Brooklyn Bridge, Georgica, Manhattan House, Miraval Living and the Setai.

"Our business has gone way up, because a year and a half ago, all these banks were my competition," Shnyder said.

District, located at 111 Fulton Street, has relied on Home Owners Mortgage to do the majority of its closings.

"They did the first 80 closings before all the other lenders were comfortable," said McArdle of Urban Marketing. Shnyder said his company also has strong connections with portfolio lenders, another important source of financing in the current climate.

These lenders, often local or regional banks, keep loans on their books to produce profit for the bank rather than selling them, so the mortgages they underwrite don't have to match Fannie Mae guidelines.

These smaller lenders haven't been hit as hard as larger banks by the credit crisis and are eager to lend, especially now that the worst of the recession seems to be over, said Ross Weinstein, a managing partner at Union Square Mortgage Group. Some of the active players in the market include Astoria Federal Savings, M & T, Ridgewood Savings Bank and Flagstar Bank.

These lenders sometimes charge a slightly higher interest rate and often have less extensive

offerings, "but they allow you to get these deals done," explained Brooke Jacob, CEO of the mortgage company Everest Equity. "Generally, as long as I have 25 percent sold, I'm okay with most of these lenders."

Typical terms being offered by portfolio lenders are 6 percent for a 30-year fixed-rate mortgage, as long as a building is 33 percent sold, the loan amount does not exceed \$1 million and the loan-to-value doesn't exceed 65 percent, Jacob said.

For buildings between 25 and 50 percent sold, an ARM might have a fixed rate of 5.25 percent for the first three years before adjusting, 5.625 percent if it adjusts after five years, and 5.75 percent if it adjusts after seven years.

In order to avail themselves of all these different options, many developers no longer have official preferred lenders, a common strategy at the beginning of the financial crisis.

At Tempo, Buchin said, Bank of America was previously the preferred lender, but "now, there's no point because they're so strict." He's now working with Fairmont and others as well.

As a result of all these efforts, some brokers and developers feel they're finally beginning to crack the code of how to move new condos in the current climate.

Andrew Gerringer, managing director of Elliman's Development Marketing Group, said: "We've been trying to figure it out for a while, and it's becoming a lot clearer now."

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