

Banks bite condo bullet

Price cuts, new strategies stimulate sales

BY PETER GRANT
CRAIN'S NEW YORK BUSINESS

Donald Trump's success this year in selling 25 Trump Palace apartments is only partly due to the development's location, views and opulent lobby.

None of those features would have mattered if Citicorp, the project's construction lender, had not put up a \$10 million letter of credit, guaranteeing that the cash-strapped developer would meet all his obligations.

After a year's hiatus, developer Larry Ingenito has restarted his sales program at the Royal Carnegie, a condominium project at 134 E. 93rd St. He was able to survive the year only because his lender, Chase Manhattan Bank, allowed him to market his units as rentals while sales activity dropped.

Meanwhile, Donald Zucker is finally gearing up his marketing plan for the Future, his condominium development at Third Avenue and 32nd Street. The breakthrough came when federal regulators seized his lender, CrossLand Savings, and installed new management.

"The uncertainty prevented the old leadership from making fundamental decisions," says Robert Esnard, president of Donald Zucker Co. "From the day new management came in, it knew clearly what it wanted to do."

Most lenders to troubled condominium projects have made it through the denial and anger phases of the grieving process; they're now into acceptance. That means banks are starting to do whatever is necessary to begin selling the units. They're restructuring loans, revamping marketing programs, putting up extra money and allowing some units to be rented rather than sold.

Agreeable to price cuts

Most important, they are agreeing to substantial price cuts. Brokers say that once lenders get involved, unit costs drop as much

as 30%. There's also little life in the market for cooperative apartment buildings that were converted in the late 1980s. Their financial structures tend to be more complicated than condominium developments. Their developers also tend to have poorer relations with their lenders.

The market for new condominiums fell with the rest of the city's real estate industry in the late 1980s. Nearly every development completed during the past four years has fallen behind projections in sales activity and price.

Condominium projects whose developers have been forced to restructure debt or ownership include Trump Palace, the Royal Carnegie, 3 Lincoln Center, the Grosvenor at 22 W. 15th St., 2250 Broadway and Shore Tower in Astoria, Queens.

Other projects are clearly headed in that direction. For example, principals of TriBeCa Tower, the 440-unit condominium at 105 Duane St., are in "heavy discussions" with its lender, National Westminster Bank USA, says Anthony Vaccarello, senior vice president of Uniondale, L.I.-based DeMatteis Organization, one of the partners.

Foreclosures on the rise

While banks prefer to restructure debt and continue working with developers, some are increasingly foreclosing on property. Citicorp, in fact, set up a separate unit 18 months ago to manage the residential property it takes over. This unit took ownership of the 123-unit condominium at 2250 Broadway as well as 67 of the Grosvenor's 134 units.

"It's not because of policy," says Leonard Druger, Citicorp managing director in charge of the unit. "Because of the decline in the market, there's clearly a much lower propensity to create a vested interest for the developer (to continue working on the project) by discounting the debt."

Banks that have taken over property have been aided by a pickup in sales activity in 1992. In the first quarter, there were 433 condominium sales worth \$140.8 million, compared with 327 sales worth \$127.5 million for the same period in 1991, according to the real estate research company Yale Robbins Inc.

"There are more primary-home buyers in the market, the surplus supply is slowly being absorbed and the Japanese investors are being replaced by other foreign groups," Ms. Sunshine says.

Lenders also are getting savvy about tailoring their marketing efforts to the different projects. For example, when sales slumped in October, 1990, Chase agreed to restructure the \$15.5 million construction loan on the Royal Carnegie around a rental program. Citicorp opened a sales campaign at the Grosvenor with an auction.

Making additional investment

Making the new strategy work often means more investment. Citicorp had to finish building 2250 Broadway after it took back the property. Also, to get the state attorney general's office to allow sales at Trump Palace to proceed, Citicorp had to put up a \$10 million letter of credit guaranteeing Mr. Trump's maintenance and real-estate tax obligations.

But the most critical factor of bank marketing efforts has been price cuts. To sell units, lenders have had to be willing to meet the market, which is 20% to 30% lower than what it was five years ago, real estate experts say.

For example, prices for the 25 units sold in Trump Palace this year averaged \$354 a square foot, according to Yale Robbins. That's about 20% to 30% off their original asking price in the late 1980s.

Some lenders may recapture write-offs on troubled projects

Citicorp has sold all but four of its 67 units in the Grosvenor at prices ranging from \$235 to \$254 a square foot. But Pier Realty Associates, the condominium's developer, originally asked an average of \$335 a square foot.

Meanwhile, Mr. Zucker first asked about \$500 a square foot for units in the Future. Mr. Esnard says price cuts are being contemplated with CrossLand's new management, but would not elaborate. Brokers believe they will need to cut the price to about \$350 a square foot to sell the units.

The good news for many of these lenders is these discounts have been about what they expected when they refocused marketing efforts. That means they will not have to add to the write-downs they took when the loans originally ran into trouble.



Louise M. Sunshine, president of the Sunshine Group Ltd., says even units in troubled condo projects can be sold if properly repositioned.

Recovering write-offs

Some banks may even recover some of their write-offs. Citicorp is selling about four condominiums a month at 2250 Broadway for about \$300 a square foot. That's better than expected, says Mr. Druger. "If this keeps up, we'll recapture some of the losses," he says.

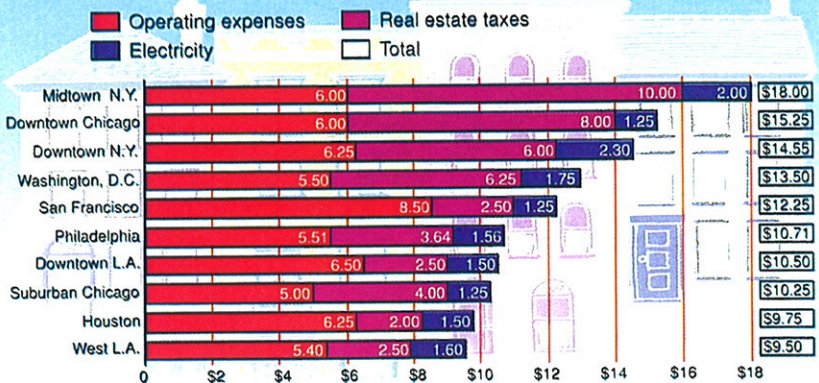
But that, of course, does not mean the lenders will make money on the projects. For example, Citicorp's original loan on the Grosvenor was \$33 million, but

the bank will only collect about \$32 million from the developer and sales of the units it took back. That \$1 million loss also does not take into account lost interest, about \$100,000 in improvements and \$300,000 in transfer taxes the bank had to pay.

Mr. Ingenito, the developer of the Royal Carnegie, agrees that with the restructuring and remarketing neither he nor his lender will earn a profit on the project. "The name of the game today is survival," he says.

REAL ESTATE WATCH

Basic commercial real estate costs (10 most expensive markets, per square foot)



Source: Julien J. Studley Inc.

Taxes are a big reason commercial real estate is so expensive in New York. As the above chart shows, taxes make up more than half of basic operating costs in midtown Manhattan. Among large cities, only Chicago and Washington rival New York in percentage of basic costs attributed to taxes.

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Lenders have anted up cash so some projects could be finished

as 30%.

Those condominium lenders who are biting the bullet have found a small consolation: demand for new condominiums at reduced prices is beginning to improve. Modest sales are resulting from the lower prices and new marketing pushes that lenders are adopting.

"There's a market for every building," says Louise M. Sunshine, president of the Sunshine Group Ltd., a real estate company that has been hired by many banks to sell condominiums. "It's a question of repositioning."

While this might not seem like much, the same cannot be said about other distressed segments of the real estate industry. For example, flagging demand is preventing office space from being absorbed despite a downward spiral in rents.