

Manhattan Luxury Condos Try FHA Backing in 'Game Changer'

By Oshrat Carmiel - Aug 13, 2010

Whitney Gollinger, marketing chief for a Manhattan condo building with an outdoor movie theater and panoramic city views, is highlighting a different amenity to spur sales: the financial backing of the federal government.

The Federal Housing Administration agreed in March to insure mortgages for apartments at the 98-unit Gramercy Park development, known as [Tempo](#). That enables buyers to make a down payment of as little as 3.5 percent in a building where apartments are listed at \$820,000 to \$3 million.

“It’s a government seal of approval,” said Gollinger, a director at the Developments Group of New York-based brokerage Prudential Douglas Elliman Real Estate. “We need as many sales tools as we can have these days, and it’s one more tool.”

The FHA, created in 1934 to make homeownership [attainable](#) for low- to moderate-income Americans, is now providing a lifeline to new Manhattan luxury condominiums after sales stalled. Buildings featuring pet spas, concierges and rooftop lounges are applying for agency backing to unlock bank financing for purchasers. The FHA guarantees that if a homebuyer defaults on his mortgage, the agency will pay it.

Seeking Approval

At least nine Manhattan condo developments south of 96th Street have sought approval for FHA backing since the agency loosened its [financing rules](#) in December, according to a [database](#) of applications maintained by the U.S. Department of Housing and Urban Development. The change allows the FHA to insure loans in new projects where only 30 percent of units are in contract, down from at least 50 percent. About 1,900 apartments in New York’s most expensive neighborhoods would be covered by the applications.

The agency also offers insurance to half of all mortgages in a single building after previously setting a limit at 30 percent, according to the [new standards](#), which expire in December. The entire property must be approved for a buyer to get backing. Most of those that applied in Manhattan are buildings converted to condos or built since 2007.

The FHA is filling a void left after mortgage-finance agency Fannie Mae [tightened](#) its condo lending standards last year. The Washington-based company won't back loans made in new buildings where fewer than 51 percent of the units are in contract, sometimes setting a requirement as high as 70 percent.

That in turn makes mortgage lenders hesitant to make loans at developments under those thresholds, said [Orest Tomaselli](#), chief executive officer of White Plains, New York-based [National Condo Advisors LLC](#), which advises condominiums on how to adhere to Fannie Mae and FHA standards.

'Not an Accident'

"It's not an accident that the FHA is offering this -- not private lenders," said [Christopher Mayer](#), senior vice dean at Columbia Business School's Paul Milstein Center for Real Estate in New York. "An unfilled condominium complex is not the kind of thing that a bank looking to rebuild its balance sheet on real estate is looking to do."

In New York City, the priciest urban U.S. housing market, the FHA insures loans of as much as \$729,750, and permits buyers to borrow up to 96.5 percent of the price.

No buildings in Manhattan applied for FHA recognition between 1998 and 2008 -- though in those years the program didn't require an entire property be approved and condo buyers could seek FHA-insured loans on their own, Tomaselli said.

New development in Manhattan represented 23 percent of the sales market in the second quarter, compared with 35 percent two years earlier, according to New York appraiser [Miller Samuel Inc.](#) About 8,700 new apartments in the borough were empty as of June, partly because of a lack of available financing for buyers, said [Jonathan Miller](#), president of the firm.

'Ironic' Move

"Something has to happen for this product to be marketable," Miller said. "I just find the whole thing ironic that FHA is providing financing for luxury housing."

The FHA loosened the condo rules because of "market conditions," according to [Lemar Wooley](#), an agency spokesman.

"We are certainly cognizant of falling sales prices, limited availability of liquidity, etc., so we wanted to be flexible," Wooley wrote in an e-mail. "The risk was considered before issuance of the temporary guidance."

The new rules are a "game changer," said Ryan Serhant, vice president at Nest Seekers International, a

brokerage with offices in New York and Florida. He's marketing [99 John Deco Lofts](#), a 442-unit conversion project in downtown Manhattan that features a "zen" flower garden and Brooklyn Bridge views.

Regaining Support

The development, where sales began more than two years ago, had 10 units go into contract with FHA backing since approval in March. The FHA suspended its support for the building Aug. 3, according to the agency website. The property is working to have it reinstated, Serhant said.

Angela Ferrara, who markets the [Sheffield](#) condos on West 57th Street, checks every day whether the 597-unit property, which applied to the FHA in May, has won approval. Ferrara, vice president of sales for New York-based the Marketing Directors Inc., says she is eager to start touting the FHA backing to potential buyers. That's a reversal from the past, when government loan programs weren't necessary -- or advertised.

"People would get the wrong idea, and think it was a different type of government-subsidized product," Ferrara said. "It was almost regarded as a negative, particularly in the luxury properties."

Now, she said, "It's actually become a widely accepted marketing tool."

Lincoln Center, Tiffany

The Sheffield promotes amenities such as concierge service, a pet spa and massage rooms, according to the project's website. A [neighborhood guide](#) on the site lists chef Thomas Keller's four-star restaurant Per Se as a nearby attraction, along with Lincoln Center, Carnegie Hall and [Tiffany & Co.'s](#) flagship Fifth Avenue store.

The Sheffield's owner, New York-based Fortress Investment Group LLC, took over the condo conversion project in foreclosure last August after the original developer, [Kent Swig](#), defaulted on a loan. With 56 percent of the converted units sold or in contract, the building has about 230 units left to sell, Ferrara estimates.

FHA is "definitely is a great solution right now," said Tomaselli of National Condo Advisors, which prepared the FHA applications for Tempo and Sheffield.

"The savvy developers did it first," Tomaselli said. "But everybody else is catching up."

Brooklyn Sales

In the borough of Brooklyn, FHA support accounted for half of the 29 units sold at the [111 Monroe](#)

condos in Clinton Hill and a quarter of apartments in Williamsburg's [NV building](#), which is sold out after two years on the market, said David Behin, executive vice president at the Developers Group, a New York brokerage for new buildings.

The FHA's effectiveness will be limited in Manhattan because apartment prices are higher than in Brooklyn and the insured loan is capped at \$729,750, Behin said. The median price of a Manhattan apartment in a new development was \$1.4 million in the second quarter, according to Miller Samuel and Prudential Douglas Elliman.

"With apartments over \$1 million, FHA isn't going to help you," Behin said. "You'd have to put down 30 percent to get the loan of \$729,000. And if you have 30 percent to put down, a bank will loan to you without FHA."

Borrowers backed by FHA are essentially buying mortgage insurance, said Debra Shultz, managing director at [Manhattan Mortgage Company Inc.](#) in New York. Buyers pay an upfront premium of 2.25 percent of their loan value, and a monthly fee equal to about 0.5 percent of the loan amount for at least five years, she said.

21% of Mortgages

Nationwide, the FHA insured 21 percent of all mortgages made in the second quarter, or \$71.4 billion worth of loans, according to Jeremy Bass, publisher of the [Inside FHA Lending](#) newsletter. That's close to the \$79.5 billion total value of all FHA-backed loans in 2007.

The agency's backing of luxury condos "doesn't look good," said [Andrew Caplin](#), a professor of economics at New York University who co-wrote a paper titled "Reassessing FHA Risk."

"Manhattan wealthy people -- is this really who the FHA was set up to support?" he said in an interview.

Caplin [testified](#) before Congress in March, arguing that FHA may need a taxpayer bailout because the agency relies on overly optimistic assumptions on unemployment, home prices and loan performance to predict losses.

Rising Defaults

Nine percent of all FHA-insured loans were 90 days or more past due or in the process of foreclosure in the first quarter, compared with 7.4 percent a year earlier, data from the Washington-based Mortgage Bankers Association show.

The agency doesn't require a minimum credit score for the mortgage insurance, though many lenders

who fund the loans insist on a rating of at least 580, said Shultz.

The FHA is considering a minimum required score of 500, according to a [notice](#) the agency filed in the Federal Register on July 15. A person with a 500 rating is in the lowest one percentile of credit scores nationally and was likely delinquent on several accounts in the last year, said John Ulzheimer, president of consumer education for [Credit.com](#), a consumer and credit education company based in San Francisco.

Taking on Risk

“The government is taking on more risk,” said [Guy Cecala](#), publisher of Inside Mortgage Finance. “That’s the bottom line. They really can’t say no, because that’s their purpose. It’s to support the housing market when there’s no other funding.”

Until they heard about FHA, Asha Willis and her boyfriend, Cesar Rivera, didn’t think they would buy a place for at least five years -- enough time to save a 20 percent down payment, she said. The couple reasoned that they earned enough to make monthly mortgage payments, and began an apartment search in February, limiting their hunt to buildings with agency backing.

Willis, an attending physician at Maimonides Medical Center in Brooklyn; and Rivera, a sales associate at Chelsea Piers in Manhattan, toured several glass and steel high rises and decided on a one-bedroom at [Toll Brothers Inc.](#)’s [Two Northside Piers](#) in Williamsburg, Brooklyn. It didn’t have FHA approval at the time, but developers promised it was on its way, Willis said.

“Our contract had a contingency that if they weren’t FHA approved we could get out of the contract,” said Willis, currently a renter at Manhattan’s Stuyvesant Town.

Prices at the building range from the “high \$300,000s” to more than \$2 million, according to Adam Gottlieb, project manager for Northside Piers. The property, which began sales in October 2008, received FHA approval in June.

‘Breaking Through’

Shultz, whose Manhattan Mortgage has sourced FHA loans for buyers in Brooklyn, the borough of Queens and on New York’s Long Island, said the last month brought a sudden surge of calls from would-be buyers seeking FHA insurance for Manhattan purchases.

“It’s definitely breaking through to the Manhattan market,” she said.

[1 Rector Park](#), a Battery Park City rental building converted to 174 condos, got FHA backing in July and re-opened its sales office Aug. 5, a year after it was shuttered with no sales recorded, said Tricia Hayes

Cole, executive managing director of [Corcoran Sunshine](#) Marketing Group. Her agency was hired to sell the units by the project's lender, [IStar Financial Inc.](#), after it took possession of the property in November, she said.

Cutting Prices

In a second try to sell the units, IStar lowered the prices by an average of 30 percent, bringing the range from \$290,000 for a 550-square-foot studio to \$2.85 million for a three-bedroom unit with views of the Hudson River and Statue of Liberty, according to Cole. Two-thirds of the building is now priced at a point that could be covered by the FHA, she said.

“It didn't seem unnatural for us to open this up to our buyers,” Cole said of FHA.

At Tempo, which is still under construction, developers are hoping that FHA approval will appeal to buyers of lower-priced units and inch the number of contracts signed to the 51 percent that conventional mortgage lenders require, Gollinger said. About 15 percent of the 98 units are under contract.

The developers plan to tout FHA support in e-mails and other promotions in a sales push next month as the building nears completion, Gollinger said.

“I never even dealt with this,” she said. “All of a sudden it became an absolute must.”

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