AGENTS CHASE AFFORDABLE MARKET

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By David Jones

Beacon Towers

Stung by a wave of condominium defaults and the collapse of the credit market for jumbo loans, some real estate brokers are channeling their energies into a different area: affordable housing developments with government-backed financing for first-time buyers.

For some brokers these offer a stable alternative to market-rate condominiums and co-ops. In recent years, firms like Halstead Property and Fillmore Real Estate have expanded their presence in affordable housing or mixed-income projects. And, in recent months, as the recession has made market-rate sales more difficult, competition among brokers has intensified because more buyers are turning to affordable units.

"We are seeing people who will come to our sales showrooms now who can't quite afford the market-rate units," said Stephen Kliegerman, executive director of development marketing at Halstead Property. "These are affordable housing [units] but they are open to free-market [buyers] under restricted income [guidelines]."

The Bloomberg administration is largely responsible for many of these new developments through its $7.5 billion program to build or renovate 165,000 units of affordable housing. A wide range of tax incentives, low-cost loans, zoning changes and the sale of city-owned land has paved the way for developers to renovate or build thousands of new apartments in low-income areas.

Developer Mark Alexander, the former president of the Urban Builders Collaborative, said that in many mixed-income buildings, specialized companies or non-profit groups are hired to sell and to screen affordable housing applications. Larger residential brokerages are then brought on to rent or sell market-rate units.

"Traditionally in 80/20 buildings [where 20 percent of rental units are affordable], owners would use Citi Habitats or Prudential Douglas Elliman or one of the other big brokers for the market-rate units and run very sophisticated marketing campaigns to maximize profit," said Alexander, who now leads the Alexander

Development Group, a newly formed affordable housing development firm.

In late 2007, Alexander hired Elliman to help sell the DeWitt Condominiums, a 16-unit mixed-income project at 483 Washington Avenue in Brooklyn, where market-rate units are being offered at $630 a square foot, or $850,000 for a roughly 1,350-square-foot, two-bedroom unit. Brooklyn-based Pratt Area Community Council, a non-profit developer and property manager, marketed the affordable units, which sold out immediately. The market-rate units have, however, taken much longer to move because of the recession.

Elliman officials did not immediately return calls for comment.

Carol Griffin, founder of the Griffin Real Estate Group, which is based in Harlem, said selling affordable housing is a difficult and time-consuming task for many large firms and may not be profitable if a firm does not have the ability to market in low-income communities.

"My history and education in housing allows me to sell both," said Griffin, who previously served as marketing director at the Harlem Community Development Corp. "It's a very administrative-laden process to sell affordable housing."

While larger firms often focus on the market-rate units in a mixed-income building, those units can offer a new avenue of business in a down market and can give brokerages a toehold in emerging neighborhoods. But they are often more challenging to sell because buyers may be reluctant to purchase in a property with low-income residents.

Halstead, for example, launched sales for market-rate units at a new co-op development called Beacon Towers, a 73-unit building at 29 West 138th Street in Harlem, and is now working on selling out the remaining affordable units.

The building includes 19 market-rate and 54 income-restricted apartments ranging from $282,000 for one-bedroom units to $649,000 for two-bedroom apartments. The project is a joint venture between the Strategic Development and Construction Group and Lemle & Wolf, a pair of developers with vast experience in the affordable housing arena.

Beacon Towers, which just completed construction this year, was developed in partnership with the Cornerstone Program, which allows developers to buy city-owned lots for a nominal price in return for building affordable housing.

More than 2,000 applicants, making up to $192,000 per household, applied last summer for the apartments through a lottery system. However, some units remain empty because not all the buyers passed the program's strict underwriting guidelines. Halstead is marketing the affordable units to the general public under those guidelines now.

The firm also recently took over sales at the Kalahari at 40 West 116th Street, a 249-unit mixed-income condominium. As *The Real Deal* previously reported, Halstead replaced the Marketing Directors as sales agent for the Kalahari in December 2008.

About half of the project was set aside for affordable housing.Nearly all of those units have been assigned through a lottery system. But the developers were forced by the downturn to cut prices and offer a mortgage contingency on market-rate units. Prices of market-rate units were cut to about $700 per square foot and have helped the building sign eight new contracts in the last few weeks.

Judy Calogero, chief executive of the New York Housing Conference, said it makes sense for certain brokers to gravitate toward affordable housing projects, given the inability of middle-class New Yorkers to qualify for mortgages for market-rate apartments these days.

"There will always be a very strong demand for affordable," she said. "I can see where brokers might be trying to make the shift."

However, marketing affordable housing is not easy, and brokerages without experience and expertise will often find themselves boxed out of the market, experts say.

Indeed, in the East New York section of Brooklyn, Fillmore Real Estate is marketing the MeadowWood at Gateway, the borough's largest converted condominium. The 1,142 units are targeted at moderate-income buyers, like teachers and firefighters.

Jean Paul Ho, vice president and director of sales at Fillmore, said the project is attracting buyers who may or may not be able to afford purchases in market-rate buildings but are seeking the assurance of a stable condominium.

"The people we're selling to have been looking and the [lending] guidelines for getting financing are stricter," said Ho. "If you are buying into this complex, you know that your neighbor is not going to go into foreclosure."

MeadowWood is one of several affordable housing developments that operates under a partnership between HPD and an organization called Neighborhood Housing Services.

The program offers consumer loans through the State of New York Mortgage Agency program, which offers 30-year fixed-rate loans for up to 97 percent of the property's value, based on strict income and credit guidelines.

MeadowWood has one-, two- and three-bedroom apartments ranging from $110,000 to $349,000.

Ho said that selling affordable projects like MeadowWood and Lafayette Estates, a 1,865-unit converted Mitchell Lama affordable project in the Bronx, is much more complicated than selling market-rate units, and notes that many large Manhattan brokers fail at these projects because they don't have the proper training or community connections.

"It's much more complicated because all the agents that I hire have to go through stringent and continuous training," said Ho.

He said a rival brokerage from Manhattan previously marketed the Lafayette Estates conversion and failed to close a single deal in more than a year.

"I have over 150 agents at this office," Ho said, referring to his Avenue L offices in Brooklyn. "If I put any other agents on this site, they would not know what to do."

COMMENTS