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TRYING TO SCORE WITH A CONVERSION ONCE A HOSPITAL AND NOW AN APARTMENT BUILDING, THE COLONNADE WILL SPEND ITS NEXT LIFE HOUSING CONDOMINIUMS. HISTORIC LANDMARKS FOR LIVING HAS A PLAN TO ATTRACT FIRST-TIME BUYERS.

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Historic Landmarks for Living, famous in the '80s for fashioning yuppie apartments from old factories and warehouses, is converting the Colonnade to condominiums.

The conversion is the third in Philadelphia by the Old City firm, which is targeting the market's first-time buyers with a special financing package that allows buyers to put only 2 percent of the purchase price down.

The Colonnade, a six-story brick building at 1601 Spring Garden St., originally was the Wills Eye Hospital. Historic Landmarks rehabbed the building in 1984, back when the federal government was still giving tax credits for renovating historic buildings.

Apartments on the first two floors are arrayed around a carpeted atrium lobby, with massive, marble-clad pillars rising to the skylights, and a reflecting pool and fountain. The third through fifth floors form a U shape that opens to the rear.

The units have the typical Historic Landmarks look: Compact floor plans, high ceilings, lots of closets, and up-to-date kitchens and baths.

Historic Landmarks has always planned to convert its buildings to condominiums, said Randy Kessler, executive vice president. But the firm was concerned that if traditional marketing and financing were used, selling all of the condos would take too long.

So Historic Landmarks put together a financing program that taps into "a real niche in the market, namely first-time buyers," Kessler said.

Fifty-two percent of the home buyers in the Philadelphia area last year were first-timers, up from 40 percent in 1990, according to a survey by Chicago Title & Trust, a national title-insurance firm.

The "HomeStart" program, which also is available at Historic Landmarks' **Wireworks** and Bridgeview Place buildings in Old City, requires less money down and less money upfront than regular home purchases.

Normally, lenders require that a buyer put down at least 5 percent of the purchase price to get a mortgage loan.

"We believe, in our hearts, this makes housing affordable for anyone who makes \$25,000 or above," Kessler said. Many renters do not think they can afford to buy, he said, but HomeStart makes it possible for them to own their own condos.

At the Colonnade, buyers may put down just 2 percent of the purchase price, plus two months of condo fees. On a 550-square-foot, one-bedroom unit costing \$63,600, for instance, the buyer needs only \$1,782 in cash to close.

For the first three years, the mortgage rate is 7.5 percent, or \$436 a month in the example above, Historic Landmarks said. In the fourth and fifth years, the rate goes up to 8.5 percent, or \$479 a month. The loan is based on a 30-year amortization, but it must be refinanced after five years.

With property taxes of \$54 a month, condo fees of \$255 a month, the monthly payment would run \$745 for the first year.

But with the buyer's property tax and mortgage interest deductions the typical after-tax cost would drop to \$621 a month.

Of that, \$48 would go toward reducing the amount of the mortgage, so the real monthly cost comes down to \$573. That unit would probably rent for between \$635 and \$650 a month, so the monthly payments would make it cheaper to buy than to rent, said Marianne Visich, vice president of sales and marketing for Historic Landmarks.

By the end of the fourth year, even with zero price appreciation, the buyer's equity would have grown to 5.93 percent of the original purchase price - enough to get a standard mortgage with private mortgage insurance.

Because mortgages with small down payments are frequently riskier for lenders, Kessler said, buyers do not actually get deeds to the condos until they are able to obtain traditional mortgages. Instead, they get a "recognition agreement" that is recorded with the county just like a deed or mortgage.

If Historic Landmarks should disappear before buyers can refinance and get deeds, payments would simply start going to the building's mortgage holder. In the case of the Colonnade, that is Samuel A. Rappaport, a well-known investor in Center City real estate.

Forrest Huffman, associate professor of real estate at Temple University's School of Business and Management, said there was "no question" that the HomeStart program would help people without large savings to buy homes.

But he cautioned that the need to refinance in five years could cause problems. By then, Huffman said, interest rates might have risen, or real estate prices could have fallen - and either scenario could prevent someone from getting a new mortgage.

Kessler, however, said buyers would be protected in several ways.

First, he said, the condos are being sold as installment sales. Under Pennsylvania law, Kessler said, even if the prices of the condos dropped and the buyers had no equity after five years and could not refinance, they could turn the property back to the seller and walk away with no further obligations.

Second, the lenders that are financing the deals are unlikely to get tough with the buyers, Kessler said. Instead, they would probably try to work out deals to tide the buyers over until the real estate market improved or rates came back down. An empty building, he said, would be no good to anyone - especially the lenders.

Finally, Kessler said, Historic Landmarks has a "self-serving motive" in helping buyers refinance - it wants to get its money back. Already, he said, the firm is involved in arranging refinancing for many of the buyers in the **Wireworks**, an Old City building that began converting less than three years ago.

Each Historic Landmarks building is actually owned by a separate limited partnership, of which Historic Landmarks might own 1 percent or 2 percent.

Allan Domb, a realty agent who is an expert in Center City condo sales and who sells in some of Historic Landmarks' competitors' buildings, said potential buyers should look closely at the neighborhoods in which they are buying.

In some, such as Rittenhouse Square and Society Hill, he said, condos are "the least costly" type of homeownership. In others, they are priced almost the same as townhouses, and, Domb said, that makes them less attractive investments.

Kessler said the price per square foot of the Historic Landmarks units was comparable with what sellers were getting in some other Center City high- rises. And, he said, the Historic Landmarks condos are essentially newer, having been completely renovated in the 1980s.

The two competitors - Kessler and Domb - did agree that the condo market is stronger than it was a couple of years ago.

Both men credited Mayor Rendell with improving the prospects for Center City real estate.

"People now believe there is a future for Center City," Domb said.

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