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# TROUBLED FIRM TRIES TO SAVE ITSELF AND RENTERS' MONEY

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Lured by an offer to become a homeowner for the cost of a security deposit, George Bernato recently gave up his life as a renter and bought a condominium at the **Wireworks**.

By his own analysis, Bernato fits the profile of the buyer targeted by Historic Landmarks for Living Inc., the prominent local developer that is converting the **Wireworks** from apartments as part of a strategy to resolve an enormous debt.

"I'm one of the people who this deal is catered to," said Bernato, 51, a psychologist. Bernato is still paying off student loans for the graduate degree he earned six years ago. "I haven't been able to save money that is typically required for a down payment," he said.

And another thing: "They don't exclude pets, and I never move anywhere without my dog."

So with cocker spaniel in tow, Bernato made the move across town, trading Rittenhouse Square for a former factory in Old City.

His studio is one of 44 units sold in the 97-unit building as of last Sunday, said Randy Kessler, Historic Landmarks' executive vice president. Fifteen were sold to tenants. Kessler said that the company hoped to sell out the building by the end of next year and that it planned to convert another of its 20 Philadelphia buildings starting in the spring.

Over the next several years, Historic Landmarks would like to convert all 36 of its buildings nationwide, he said.

The **Wireworks** sales figures suggest that the first phase of the conversion holds promise. The conversion didn't get under way until July. During the first six months of this year, according to data from Realist Inc., a computerized real estate database, only 62 residential sales were

recorded in the entire 19106 ZIP code area, which encompasses everything between Callowhill and Pine Streets from Eighth Street to the Delaware River.

So the sale of 44 units in just the **Wireworks** building indicates that the conversion has been successful so far.

"You would think it would be," said Forrest Huffman, head of the Temple University Real Estate Center.

But Huffman said he had serious reservations about the wisdom of the project for the buyers and the lender, GE Capital Corp. He said that buyers stood to lose if the units depreciated in value and that the lender stood to lose if buyers decided to walk away.

The waiving of traditional credit requirements puts the lender at further risk, Huffman said. To qualify, a buyer needs to meet only those standards normally required for apartment rental.

"The only problem with that little financial package they have is, do you have a bona fide purchaser?" asked Huffman.

"These are people with absolutely perfect credit history," said Kessler, who said he had reviewed all of the applications. He said that, on average, the monthly payments constituted about 15 percent of the buyers' incomes; as a rule, lenders require that payments not exceed 28 percent of income.

Conventional lenders, Kessler said, "run you through hoops for months." Few people are financially blemish-free, he added. "Everybody has problems in life."

Including Historic Landmarks. The company is about \$200 million in debt, according to Kessler. In January 1989, it defaulted on a loan payment to GE Capital. Huffman has described the financing package as a "friendly foreclosure." Officials of GE Capital, a unit of General Electric Co., could not be reached for comment.

A condominium buyer at the **Wireworks** needs only a \$500 down payment. All closing costs, which can rival conventional down payments, are paid by the seller. Under an installment-sale agreement, a 9 percent loan rate is guaranteed for the first five years. Given the tax breaks that come with homeownership, monthly costs are similar to monthly rentals.

The units range from 460 to 1,200 square feet and are offered at prices ranging from \$55,000 to \$115,000, or \$95 to \$119 per square foot.

Allan Domb, one of the most active brokers in the city's condominium market, thinks the prices are too high, given the location, at Third and Race Streets. Domb is president of the Philadelphia Board of Realtors.

"You should be buying based on value, not financing," he argued.

The neighborhood is "desirable," said Margaret Szumski, a Realtor with Plumer, Levit, Smith & Parke, but the price "sounds high."

Although they are amortized over 30 years, the **Wireworks'** loans reach maturity in five years, at which time an owner must refinance. Kessler said that the company was trying to work out an internal refinancing plan for **Wireworks** buyers and that it would extend installment-sale agreements if necessary.

Given the state of the market, there is no assurance that the properties will appreciate in value. What's more, the five-year 9 percent interest rate does not look as attractive as it did when the conversion was announced. Conventional rates were 9.68 percent last week, according to Mortgage Reporting Services Inc., of Jenkintown.

"I think it's risky," said Domb. He said it might be a risk worth taking, "if the consumer knows that they're probably not going to get out of it with a profit."

"Obviously," said Kessler, appreciation is "a scenario that no one can predict" for any property.

Huffman said the uncertainties of property values also posed a hazard to the lender. "If there's any loss in value," he said, "who's going to pay \$80,000 on a \$60,000 piece of property?"

"You have nothing to lose by walking away." True, he said, the borrower's credit rating would take a serious hit, but, given the state of the economy, "you're not going to stand out in a crowd."

Kessler said Historic Landmarks had tried to provide safety nets for buyers. He said that if a buyer whose payments were current wanted to bail out, "assuming reasonable notice . . . we would agree to repossess the unit from the buyer."

He said that even if GE Capital were to foreclose, **Wireworks** condominium owners would be "totally protected." Deeds are kept in escrow with the title company.

"You cannot buy anywhere with the kind of financing they have," said Lee Pavorsky, 26, owner of a jewelry business in the old Lit Bros. building. Pavorsky, another former renter who bought a **Wireworks** unit, said he and his fiancée had been shopping for a home. "We have looked all over Philadelphia, and prices in some of the area were ridiculous."

Domb made the point that condominiums in Pavorsky's former neighborhood, Society Hill, were comparable in price to the **Wireworks** units.

Countered Pavorsky: "You couldn't go to him with \$500 down."

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