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LANDMARKS TRIES A CONDO STRATEGY TO END ITS WOES

Author(s): Anthony R. Wood, Inquirer Staff Writer
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Among Philadelphia traditions, the condominium hardly ranks with the soft pretzel and the parking ticket.

Only about 4 percent of the city's owner-occupied residences are condominiums, and that market is concentrated in Center City. Close to 40 percent, or about 5,000, of the city's 12,000 condominiums are clustered between the rivers and Pine and Callowhill Streets.

As in the overall real estate market, sales of condos are down and prices are flat. In Center City, condominium sales fell 19 percent between 1988 and 1989 and 25 percent from the first quarter of 1989 to the first quarter of this year, according to Realist, the real estate data service.

Between 1984 and 1989, price increases "barely beat inflation," said Forrest Huffman, director of the Temple University Real Estate Center, which recently compiled a study of the city's condominium market.

So it may seem odd that anyone would undertake a project that could add more than 1,200 condominium units over the next several years.

Yet that's the plan unveiled recently by Historic Landmarks for Living Inc. And at least a few observers think that it might work.

Historic Landmarks' first proposed conversion is the **Wireworks**, a 97-unit building at Third and Race Streets. With a package that carries no closing costs and offers minimal down payments, Historic Landmarks is trying to induce tenants to purchase their apartments.

The company views the **Wireworks** conversion as a prototype. Company officials say that if it is successful, they will use the same strategy to convert all 3,000 of Historic Landmarks' apartments.

Of the 1,440 Historic Landmarks apartments in Philadelphia, all but 220 are in Center City. It may not be the best time to enter the condominium market, but debt has far more to do with Historic Landmarks' proposal than market conditions.

The company altered the landscape of the Philadelphia apartment market by converting old factories into luxury apartment buildings. Changes in tax laws that eviscerated tax advantages for historic rehabilitation helped alter the landscape of Historic Landmarks' finances.

While investment money was evaporating, the company was unable to command premium rents for its luxury apartments.

The company is about $200 million in debt, according to Randy Kessler, its executive vice president.

Kessler said recently that Historic Landmarks had defaulted on a payment to GE Capital Corp., one of its major lenders, which is backing the **Wireworks** financing package.

Temple's Huffman said the **Wireworks** conversion plan was tantamount to a ''friendly foreclosure." He said that GE Capital stood to recoup at least some of its money and that Historic Landmarks could at least buy some time with the project.

"It's an installment sale, rather than go to foreclosure for a lump sum," Huffman said. Once a foreclosure proceeding begins, he said, "then you know it's officially a disaster."

Huffman said the situation called to mind an old adage: "If you owe a little bit of money, you're at the mercy of the bank. If you owe a lot of money, they're at your mercy."

"GE Capital is a very creative lender and is willing to consider a lot of alternatives that other lenders won't put on the menu," said Steven Shepsman, of Kenneth Leventhal & Co., a specialist in distressed real estate that worked with Historic Landmarks on debt restructuring.

Allan Domb, president of the Philadelphia Board of Realtors, who is heavily involved in the condominium market, said he was more enthusiastic about the financing plan than about the prices of the **Wireworks** units.

The units range from 460 to 1,200 square feet and are being offered at prices ranging from $55,000 to $115,000 or $95 to $119 per square foot. Domb said Old City condominium prices should be closer to $70 to $80 per square foot.

Under the terms of the financing package, the buyer would obtain a mortgage loan at an interest rate of 9 percent. The loan would be amortized over 30 years but would reach maturity in five years, at which time the buyer would have to refinance. In the meantime, Historic Landmarks would hold the deed.

Historic Landmarks would pay all settlement costs. It also would pay the city transfer tax, currently 4.92 percent of the purchase price, but not until the deed was transferred.

Buyers would need only a $500 down payment. Their monthly payments would be higher than their rents, but tax savings on interest would bring net costs closer to rents.

Domb said the package offered a "win for the developer if it works, a potential win for the tenant if the values go up, and a loss for the federal government" because of the tax savings.

He called the proposal a "creative way to sell real estate in today's market. . . . They are trying to solve the affordability problem."

Domb's view of condominium sales is rosier than the one suggested by the data. Domb said that vacancies were minimal and that the condominium market was "healthier" than the housing market generally.

He and Tony Caruso, who sells condominiums for Robert J. Nash, a Center City real estate firm, said security was an important marketing advantage for condominiums.

Domb said a "high percentage of single professional females wouldn't live anywhere else but a condo."

He says the key to Landmarks' long-term strategy can be found in the enormous office towers under construction in Center City. Those buildings may help fuel the condominium market.

"The city will come back," he said. "You have the office building that has occurred. Those office buildings will become occupied."

Leventhal's Shepsman said he believed that Stephen Solms, Historic Landmarks' president, could pull off the conversion strategy. "If somebody can convince the market, . . . Stephen is the guy," he said.

But there is another scenario.

"If the market is really, really bad," Shepsman said, "sometimes you can't give things away."
PHILADELPHIA PROPERTIES OF HISTORIC LANDMARKS FOR LIVING

Apartment buildings, addresses, number of units and the date on which the project's tax credit expires. After that date, the building is eligible for conversion to condominiums.
DATE OF

BUILDING ADDRESS UNITS EXPIRATION

Chocolate Works 231 N. Third St. 135 12/31/91

Bridgeview Place 315 New St. 160 12/31/91

Bank Street Court 24 Bank St. 59 expired

Strawberry Court 15 S. Bank St. 32 expired

Waterfront I 33 S. Letitia St. 24 expired

Waterfront II 106 S. Front St. 13 expired

Little Boys Way 209 Cuthbert St. 29 expired

Wireworks 301 Race St. 97 expired

Lippincott Court 17-23 Bank St. 20 12/31/91

Packard Building 317 N. Broad St. 151 12/31/91

Metropolitan 117 N. 15th St. 120 expired

Trinity Row 2027-31 Arch St. 18 expired

Colonnade 1601 Spring Garden St. 115 12/31/90

Lofts at Logan View 1666 Callowhill St. 108 12/31/90

Touraine 1520 Spruce St. 129 expired

Clinton 1023 Clinton St. 16 expired

Portico Row 924 Spruce St. 8 expired

Roberts Quay 1035 Spruce St. 20 expired

Locust Point 2429 Locust St. 110 12/31/92

Old Quaker Building 3514 Lancaster Ave. 76 12/31/92

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