

THE REAL DEAL

Manhattan House faces lending woes

By David Jones

The record \$1.1 billion Manhattan House conversion on the Upper East Side has run into resistance from several major commercial banks that have either refused to finance condo deals there or demanded exorbitant down payments from contracted buyers.

Sources familiar with the building said at least a dozen condo buyers have either been turned down for loans, or asked to provide 30 to 50 percent cash deposits, which in some cases forced them to postpone the scheduled closing of their units.

As a result, some buyers fear they will have to purchase their apartments entirely in cash or risk walking away from the building because the condo agreements did not include a mortgage contingency clause.

"They got caught in the perfect storm on the precipice of this [credit market] disaster," said a source.

Manhattan House is one of the city's largest and most high-profile condo conversions. But, it is not the only condo building in New York facing problems. Buyers have begun to bail out of condos like 25 Broad and 20 Pine Street in the Financial District, while lenders have shied away from some Battery Park City buildings because they sit on long-term ground leases.

According to sources and records filed with the city Department of Finance, at least eight of the more than 120 apartments sold at Manhattan House have closed since the condo plan was approved by state regulators. Of those eight, four sales were cash transactions, three were loans approved by Wells Fargo and one was a loan approved JPMorgan Chase.

Neil Bader, area manager at Wells Fargo Home Mortgage, confirmed that the bank has pre-approved the building and is actively working with buyers to finance apartment deals.

"There is nothing inherent about Manhattan House or the financial efficacy of that building that would have any impact on getting lower loan to value," said Bader.

However, a Citibank spokesman confirmed that the bank will not write loans to finance Manhattan House buyers, saying the building did not meet Fannie Mae/Freddie Mac guidelines, which are used to assess risk levels in newly constructed or converted condos. "We might look at that building in the future," the spokesman said.

JPMorgan Chase spokesman Mike Fusco, while declining to comment on Manhattan House specifically, said Fannie and Freddie "are asking us to make loans only if 51 percent of the units are sold at presale. He added, however, that the bank is actively pursuing new loans to fill the void left by other conservative or collapsed banks, and during the second-quarter had the biggest year-over-year market share gain among the nation's top lenders.

The decisions come at a critical time for Manhattan House owner O'Connor Capital Partners, which recently sold the building's retail space for \$86 million and used part of the proceeds to pay down its loan balance from German-lender HSH Nordbank.

In October 2007, the New York-based developer borrowed \$750 million from HSH Nordbank to finance the conversion of Manhattan House, which was acquired for a record \$623 million in 2005.

HSH Nordbank initially syndicated the loan among a group of banks, giving each a piece of the loan and reducing the risk for all of the lenders. The banks involved in the deal included Emigrant Savings, Bank of America, Bank of New York, HSBC, ING, M&T and Wells Fargo.

However, a September report in Commercial Mortgage Alert confirmed that the partner banks forced HSH to take the loan back, amid concerns about the conversion. The report said HSH would cut most of its New York staff and curtail lending in the U.S., where it had about \$6 billion in mortgages that it was unable to syndicate.

HSH Nordbank and Manhattan House officials declined comment.

Legal and financial experts said the tight lending environment not only reflects increased concern about financing highly-leveraged projects, but also highlights the inability to securitize super jumbo loans in the multi-million dollar range. Loans of this size are often considered "portfolio loans" that would be carried on the banks' own books and not sold off in the secondary market.

"Most lenders have completely changed their loan-to-value guidelines," said Debra Schultz, director and senior mortgage consultant at Manhattan Mortgage Co., the largest residential mortgage broker in New York. "If you want to borrow 90 percent on a \$3 million to \$4 million property, they want no part of it."

Schultz said that many of her wealthy clients cannot get financing from commercial banks, forcing her to use private lenders, which include hedge funds and the private banking departments of many investment banks.

Manhattan House, with a total of 583 total units, has a large number of apartments that have not been sold, or even been renovated yet, which means the developer will need to spend additional funds on construction and find a way to generate revenue in a weak real estate market.

Katherine Fleming, a Manhattan House tenant since 1991, just closed a deal to buy her apartment for \$1.55 million in cash and remains confident in the building's performance. "The building has a future or I wouldn't have put my money down," she said.

Manhattan House has about 190 rent-stabilized tenants and 35 market-rate tenants. City records show that the eight recorded sales range from about \$837,343 to \$2.72 million.

Adam Leitman Bailey, attorney for the Manhattan House Tenants Association and an advisor to some of the buyers, declined comment.

Critics of the building note that O'Connor and former partner Richard Kalikow bought Manhattan House at the height of the real estate boom for a record \$623 million, which averages more than \$1 million per apartment. So even if O'Connor were to consider renting out units, he would never be able to generate enough income to pay his "monthly nut," sources said.

"He paid way too much to justify it as a rental," said David Berger, managing principal at Rosewood Realty Group. "In a good market the numbers wouldn't underwrite as a rental."

As noted earlier, O'Connor is not the only new condo facing difficulties.

At 20 Pine Street in the Financial District, multiple buyers have filed suit to get their deposits back, citing extensive delays, and more than 50 units have been placed in the rental market, according to StreetEasy.

And, developer Kent Swig is facing lawsuits from unpaid contractors at 25 Broad Street and at the Sheffield at 322 West 57th Street. He recently shut down his entire 25 Broad sales office and some buyers have said they will walk from their deposits.

"The very aggressive people who banked on these projects selling out at a very large sellout number are going to be faced with challenges," said one leading condo broker, who asked not to be identified. "When anybody in Manhattan House wants to sell their [unit] they're going to be competing with the sponsor."

Herrick Feinstein attorney Doug Heller said one of his clients, a developer with multiple condo projects, has been unable to get financing for many of his buyers. Heller worries that new government regulations will further limit the ability of condo buyers to qualify for financing.

"What I'm hearing from my clients is that this might even be the tip of the iceberg," he said.