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BARGAINS WITH A 'BUT'

AFFORDABLE NEW YORK APARTMENTS WITH A CATCH

By Michelle Higgins | June 27, 2014

A four-bedroom on the Upper West Side listed for $875,000 has been languishing since December. A $385,000 two-bedroom in Manhattan Valley has been available for six months. And a studio in Chelsea with a $299,000 price tag only recently went into contract after nearly a year and $60,000 in price cuts.

In this extremely tight real estate market, when practically any listing is snapped up instantly, why are some of the city's most affordable apartments struggling to find buyers? It's because they belong to a small and quirky breed of co-op that requires buyers to meet income caps, yet have significant assets on hand — a tall order for most.

"It's a Catch-22, since they can't earn more than a certain amount, but cannot qualify for financing at that income unless they make a massive down payment," said Christopher J. Stanley, an associate broker with the Corcoran Group, who recently sold a $510,000 one-bedroom in Hell's Kitchen that required the buyer to pay in cash yet earn no more than $67,000 a year. "Everybody wanted to buy, but most people could not qualify."

Welcome to the world of what is known in real estate as the H.D.F.C., or Housing Development Fund Corporation — a form of co-op housing intended for low-income New Yorkers. The bulk of these income-restricted co-ops came into being after thousands of derelict apartments were seized by the city in the late '70s. The city began fixing up the buildings, then allowed tenants to buy them for nominal amounts and turn them into low-income co-ops. The buildings were concentrated on the Lower East Side and in Upper Manhattan, Brooklyn and the South Bronx.

Originally, the apartments were sold to residents for just $250 each. To keep them affordable, income ceilings were imposed on resales, as were hefty flip-tax provisions to help deter anyone looking to make a quick profit. In return, tax subsidies helped keep maintenance low. Today, there are an estimated 25,800 of these apartments across some 1,200 buildings, according to the New York City Department of Housing Preservation and Development.

In the past, the apartments were resold for moderate amounts. But over the last decade, as some once-blighted neighborhoods became more desirable, the script changed. Resale listings popped up for $300,000, even $800,000, putting them out of reach of most low-income buyers. In rare cases the apartments have gone for more than $1 million.

At the Grinnell, a century-old building topped by corner towers at 800 Riverside Drive, a nine-room income-restricted apartment sold for $2.025 million in March — $30,000 above the $1.995 million asking price.

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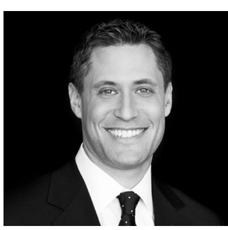

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At these prices, it's reasonable to wonder: Who can afford to buy these apartments with a limited income? Increasingly, brokers and housing advocates say, the answer is retirees, young people receiving help from their families, middle-class workers with a sudden inheritance and others who qualify on paper for the income caps but have significant assets.

“I've seen every permutation,” said Lee-Ann Pinder, a real estate agent with Citi Habitats, who has worked on a number of income-restricted deals over the last six years. They included buyers who “had a change in circumstance in their life” and buyers who had sold property and were going back to school, she said. Otherwise, “If you've got an income cap of $72,000 for an individual, and they are supposed to buy a property for $400,000, how's the math going to work?” she said.

Gary Cowling, an actor and teacher who purchased the Hell's Kitchen apartment listed by Mr. Stanley of Corcoran for $510,000, had saved some money by living frugally in a rent-controlled apartment. He came into a small inheritance after his parents died that allowed him to pay cash — a crucial factor in closing the deal, as the co-op lacked some financial records required by banks for lending.

“You needed to be income poor, but savings rich,” said Mr. Cowling, who met the $67,000 income cap. “Acting and teaching does not make a lot of money.”

Higher resale prices help Housing Development Fund Corporations to keep maintenance fees low. Many H.D.F.C. co-ops impose flip taxes on resales of as much as 30 percent, with the money going back into building coffers for roof repairs, facade work and other maintenance issues. With Mr. Cowling's purchase, for instance, the co-op received 30 percent of the seller's profit on the $510,000 sale.

“I think H.D.F.C. boards are really trying to keep it for affordable-housing buyers,” said Karen D. Shenker, an associate broker with Corcoran who has sold 46 income-restricted apartments since 2007. “On the other hand, they also need to sell at a particular price point that can help build the co-op reserves so they can survive as an H.D.F.C.”

And who would blame a seller for trying to capitalize on his or her investment? Francisco and Cyntia Waltersdorfer bought an income-restricted apartment three years ago in Morningside Heights when they were budding architects, fresh out of graduate school. “One of the bathroom walls was stiffened with packing tape,” recalled Mr. Waltersdorfer, who now works for a Manhattan firm. “A portion of the ceiling was falling apart.”

But at about $270,000, the price was right, and as architecture students, they had the know-how to fix up the apartment. To gain more living space, the couple turned the small two-bedroom into a large one-bedroom. They also invested roughly $100,000 in upgrades, including plumbing and electrical work and kitchen and bath makeovers.

Now, with a toddler and a newborn in tow, they have outgrown the place and need to sell. The building's income cap is fairly generous, allowing a buyer to earn as much as $225,000 for one or two people. The maintenance, $450 a month, is low, and the flip tax is just 3 percent of the sale price, as opposed to the 30 percent charged by some income-restricted co-ops. But finding a buyer hasn't been easy.

With a listing price of $459,000, they hope to clear enough cash on the deal to recoup their investment and have enough for a down payment for a larger space.“Hopefully the right person will come along and buy it,” Mrs. Waltersdorfer said.

“Sellers of all stripes are going to try to get the best and highest price for their properties,” said Scott Harris of Brown Harris Stevens, the listing broker for an $875,000 four-bedroom at 72 West 88th Street, a walk-up building near Central Park. His clients bought the unit for a nominal sum when it turned co-op in 1997, he said.

Interest has been high, with roughly 250 inquiries, 80 showings and 15 offers over the course of the past 7 months, Mr. Harris said. But the offers either were too low or didn't work out because the buyers couldn't qualify for a loan or didn't quite meet the income requirements, which are capped at 165 percent of the area median income or $141,735 for a family of four. Though the apartment needs work, Mr. Harris noted, “in a building with an elevator, without the rigors of income caps, this is likely worth two times this asking price.”