THE REAL DEAL

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Foreclosure fears mount in city

Sales of less restrictive condos could change the landscape

By Philana Patterson

Conventional wisdom holds that the New York City real estate market is a bit insane, but at least it's more resistant to foreclosures than the rest of the country.

The bulk of apartments in the city are co-ops, and their boards typically have tough requirements to guard against potential financial problems. Co-op boards typically require down payments, usually 20 percent of the purchase price, but sometimes as much as 50 percent -- no easy feat when the average price of a Manhattan apartment is more than $1 million. Potential buyers usually must show a high level of liquid assets, and boards may refuse to approve a sale if a buyer tries to use an exotic mortgage.

But the landscape is changing thanks to new condo developments. In 1986, the ratio of co-ops to condos in Manhattan was 85 to 15, said Jonathan Miller, president and CEO of New York appraisal firm Miller Samuel. By 1996, that ratio had shifted to 80 to 20, and last year it was 75 to 25, according to Miller.

As condos, which typically have less stringent financial requirements, account for a growing percentage of sales, is New York more vulnerable to foreclosures?

"We have yet to see if there is a problem with condo foreclosures," said Frank Tamayo, senior loan officer at Trachtman & Bach. About half of his business is coming from condo sales, up from just 25 percent last year, he said.

There were more than 1,700 condo sales in Manhattan in the first quarter, up more than 72 percent from the fourth quarter of last year, according to Miller Samuel.

"It's definitely looser," Tamayo said of the financial requirements of condos compared to co-ops. "You can go into a condo with 100 percent financing, but most people do 5 to 10 percent on them."

These days, condo buyers usually opt for a 30-year fixed-rate mortgage or a 30-year mortgage that's interest-only for the first 10 years and converts to a 20-year fixed-rate, mortgage brokers said.

The reason the woes of the subprime mortgage market aren't likely to hit Manhattan in a big way is that the buying bracket isn't on the low end of the spectrum, said Jeff Guarino, managing director for Gotham Capital Mortgage.

In 2005, only 1.1 percent of home purchase loans in Manhattan were subprime, according to the New York University Furman Center's 2006 State of the City Report.

Also, subprime lenders tend to shy away from a lot of the new condo developments, Guarino said. Subprime lenders "tend to be single-family lenders with loan amounts under $500,000."

Condos in Manhattan tend to hit the upper end of the pricing range, and many buyers pay cash.

"You don't have to worry about a $12 million condo in the Time Warner Center going into foreclosure," said Equity Now president Michael Moskowitz.

But signs of trouble are cropping up in the outer boroughs.

The highest rates of subprime borrowing are in the Bronx, Brooklyn and Queens, respectively, according to the NYU Furman Center report. In 2005, in 22 of the city's 59 community districts, more than 30 percent of all home purchase loans were subprime, and in five of those districts the share of subprime loans was 50 percent or greater.

Jessica Davis, president of Profiles Publications, which tracks foreclosures in the city, said she's "been concerned about this [trend] over the last year and a half." In Brooklyn, between 90 and 125 properties have been going into the first stage of foreclosure each week. A small number of them are condos, at most five per week.

She's seen an uptick in foreclosure activity in neighborhoods such as Bushwick and Bedford-Stuyvesant, where middle-income buyers have staked a claim in previously depressed areas.

"The last neighborhoods where people were hoping to get an affordable piece of real estate are going into foreclosure," Davis said.

Queens, which has few condos, has also experienced a great deal of foreclosure activity, according to PropertyShark.com. In the first quarter, Queens accounted for the majority of foreclosed properties citywide, with 319 foreclosures between January and March, a 91 percent rise in foreclosures over the fourth quarter of 2006, according to the real estate data provider.

Also, owning a co-op doesn't necessarily indicate financial stability. A recent list of upcoming foreclosure auctions provided by Profiles Publications revealed pending foreclosure auctions of co-op units in Manhattan on West 19th Street, East 59th Street, East 90th Street, Horatio Street, Riverside Drive and West End Avenue.

Some co-op boards are more lax than others, and financially vulnerable buyers can pass their scrutiny, Moskowitz said. When times are good, they'll require a big down payment, but when the market is weaker, sometimes they'll be more flexible.

History also pokes holes in the theory that co-ops are safer from foreclosures than other property types, according to Miller. In the early 1990s, when a weak economy hurt the real estate market, 50 percent of his business was foreclosures, Miller said. "The majority of them were co-ops," he said.
