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Bargains With a 'But'

By Michelle Higgins

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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.

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.”

The idea that these apartments would sell for anywhere close to today’s prices was beyond belief some 40 years ago when the city started using foreclosure to combat the wave of abandonment that blighted many neighborhoods, said Andrew Reicher, the executive director of the Urban Homesteading Assistance Board, a nonprofit organization, known as UHAB, that provides training, technical and development services to create, sustain and preserve this type of cooperative housing.

Tenants who banded together and purchased buildings from the city were bound by income restrictions, which varied depending on the type of government subsidy with which the co-op was created and also when it was formed. One common standard is to cap incomes at six or seven times the annual maintenance plus a factor for utilities, depending on the number of people in the household. Another is to cap buyer earnings at some percentage of the area median income. But there have been few outright restrictions on resale prices.

Even though many income-restricted apartments are still below market rate, Mr. Reicher of UHAB said, “you do see prices that are much higher than what you would think of as affordable housing.,” he said. “We don’t think that’s in keeping with the purpose and intent of H.D.F.C.’s.”

Some income restrictions come with term limits that range from 10 to 40 years. When the term is up, the co-op must agree to continue the old income restrictions or adopt new ones, but price restrictions are typically not required.

Mr. Reicher’s group has been calling for consistent price caps on resales and for consistent income restrictions across all Housing Department Fund Corporations. In exchange for stricter regulations, including maximum resale prices, for example, buildings could receive a more substantial tax subsidy. At least 50 newer income-restricted buildings have been created with such price caps in recent years, Mr. Reicher said. And there have been other steps toward regulation.

After taking over a derelict building, the city now uses a “third-party transfer” to turn the building over to a nonprofit group like UHAB or to a for-profit developer. A couple of years ago, the Department of Housing Preservation and Development added a price cap based on bedroom size and year sold for new H.D.F.C. co-ops created through this program.

Some of the price creep has been a natural function of H.D.F.C. bylaws. In buildings where the income cap is based on a percentage of the median income and the neighborhood has become more affluent, prices have risen accordingly. “As Harlem, the Lower East Side and Williamsburg have become more gentrified, incomes have gone up,” said Tracie Hamersley of Citi Habitats, who has sold several income-restricted units over the years. As a result, these apartments are “attracting a different group of buyers that might be making more money than 5, 10, 15 years ago,” she said.

Heather Tierney, a designer and restaurateur, recently accepted an offer at the full asking price of $450,000 for her Lower East Side loft, which has an income restriction of $63,072 for one person or $69,084 for two people. She bought the unit, a fifth-floor walk-up, 10 years ago for $299,500. “I was a writer for a magazine and I made no money,” she said.

Thanks to a good credit score and a borrowed down payment from a grandfather, she was able to qualify for an adjustable-rate mortgage.

“When I first moved in, it was a lot of original tenants,” Ms. Tierney said. “Now it’s a bunch of young people — young professionals, young couples, mainly single people.”

But with her business expanding to Los Angeles, she is looking for a place to live there. Without the proceeds from her New York apartment, she said, she wouldn’t be able to buy in California. “A little one-bedroom bungalow shack is like a million dollars out here,” she said.

Not every H.D.F.C. apartment is going for half a million dollars. At uhab.org/homeownership, where UHAB announces listings in H.D.F.C. co-op buildings, resale prices are around $30,000 a room; the organization generally does not post listings for units more expensive than that. For example, recent listings in the Bronx ranged from $25,000 for a one-bedroom to $75,000 for a three-bedroom. In some newly converted buildings, an apartment can cost as little as $2,500.

As with any real estate purchase, buyers must do their research. If the price seems way too low or an apartment has been lingering on the market for many months, ask yourself a few questions, said Ms. Pinder of Citi Habitats. “Why is it priced this way? Nine times out of 10 it might be something financial,” like a lack of reserves for maintenance problems. Even if the co-op is in good financial shape, a lack of reports and board minutes can mean banks won’t lend to buyers. And some apartments may simply be overpriced.

“As long as they are financially sound and they are well priced, they will fly off the shelves,” said Karen D. Shenker of the Corcoran Group. Last month, she listed a renovated three-bedroom in Harlem for $300,000 with income caps ranging from $70,500 for one person to $108,750 for five. The first open house drew more than 100 people and multiple bids. Within a week, the apartment had an accepted offer for more than 10 percent above the asking price.

Yet, even at the higher prices, many income-restricted apartments are still a bargain. And for those who can qualify, the apartments are a godsend.

After a determined six-month hunt, Anna Steegmann was considering giving up her search for an income-restricted H.D.F.C. apartment. While she met the income cap of $72,150 for one person, she had been outbid for a $315,000 three-bedroom in an elevator building in Harlem. “It’s hard,” said Ms. Steegmann, who is 60 and teaches writing for social sciences at the college level. “If you’re a low-income person, how are you going to have $315,000 in cash?”

Then her mother died, leaving her a small inheritance that opened up her options. The buyer who had outbid her backed out and Ms. Steegmann stepped in, offering the full asking price of $315,000 in cash. She closed on the place in April. “It’s a good old-age apartment,” she said, pointing out that the split-bedroom configuration will suit a live-in nurse if needed down the road.

“Now my retirement is secure,” she said, noting the building’s tax subsidy should keep maintenance fees low. “I don’t think I’ll live another 30 years, but if I do, I can stay in New York City. I’m not going to be forced to leave if I don’t want to leave.”