HABITAT HOTLINE

BUILDING REHABILITATION

Renovation and Refinancing

Executive Towers rises gleaming white on the Bronx skyline. Built in 1963, the 24-story doorman building at 1020 Grand Concourse covers most of its block and houses 455 residential units, 39,000 square feet of office space, and a 290-car garage. Its newly renovated exterior and colorful landscaping capture the attention of passers-by, while its faster elevators, new windows, and redecorated lobby and hallways delight residents.

"The building is one of the nicest in the Bronx," says Desi Ndreu, an account executive with Insignia Residential Group and a resident of Executive Towers. "People walk in and they find it's beautiful, just like it used to be. From two blocks away you can see the sun just shine off of it. It's like an oasis in the middle of the desert."

The just-completed renovation so dramatically changed Executive Towers that it is difficult to recall the dismal future the building faced only three years ago. Its notorious state of disrepair, coupled with an owner-occupancy rate of barely 35 percent, had caused bank after bank to reject the board's request for financing to stem the building's alarming decline. The rescue and rebirth of Executive Towers is a tale of partnership, perseverance, and dedication.

When Vernon Grant, senior account manager with Insignia, took over the management of Executive Towers in 1990, the building had reached a state of near-total deterioration, both physically and financially. "We were approaching a $150,000 deficit for that year, and the next year would be even more," he recalls. "It was taking so much money just to maintain the building."

Shortly after Grant arrived, mounting complaints from shareholders forced the board to schedule a total replacement of the building's air-conditioning system – requiring a nearly $1 million assessment. No sooner had this problem been solved than another much graver one emerged: the glazed brick exterior walls had become dangerously unstable.

"We found that walls on six or seven floors needed to be replaced because the bricks were bulging," explains Grant. "There were step cracks in the bricks, and we thought they were in imminent danger of falling and hurting people down below."

photo: Birgit Pohl

Goggins and Perkins: problems.

The co-op board immediately authorized the repairs, but that required another assessment. Unfortunately, the more masonry the construction crews removed from the building's exterior, the more damage they uncovered.

"They would come back and tell us, 'Oh my God, this is really, really unbelievable. There's even more work to be done,'" Grant recalls. To make matters worse, the rundown lobby, decrepit elevators, dingy hallways, and decades of grime both inside and out made the building unpleasant for its residents and thoroughly unattractive to potential purchasers.

The building's decay helped exacerbate an already precarious situation. More than 60 percent of the building was sponsor-owned by the Bernsteins and few of the sold units were occupied by shareholders. As the building slipped deeper into disrepair, unit sales declined and existing residents moved out. This slowed the collection of shareholder assessments, the only source of funds to pay for the repairs.

"We were basically just getting by," observes Clinton McClain, Executive Towers' board president at the time. "If we didn't do something dramatic, we were going to be stuck in a patchwork mode. We had to make change happen."

But there were larger problems beyond the condition of the building. "In the beginning, we weren't in very good financial shape," says long-time resident Eleanor Goggins, vice president of the board during the renovations. "We first had to work on that so someone would give us money to fix the building, and so we could make higher mortgage payments. We went over the financial reports with a fine-toothed comb. Anything that could be cut out was cut out. Anything that we could get cheaper, we went where it was cheaper. And [for renters] who were in arrears...we initiated a late fee charge, and gradually they began to pay."

With their financial statements in a more positive state, the board and the managing agent, Insignia, approached the United States Department of Housing and Urban Development (HUD), which held the co-op's existing loan, for a new mortgage. "They sent us a package probably eight inches thick that we had to fill out and return," explains Grant. "By the time we finished it, it had grown to 12 inches thick. And we had to meet all of these requirements before they even would consider making a decision in Washington: expensive tests for lead paint, and so on. Dealing with HUD is a…nightmare from an administrative point of view."

The board and Insignia completed the paperwork with disappointing results. "We got nothing from HUD to refinance this building," complains Goggins. "Not one penny. They didn't come through at all." So the financing process dragged on, as Executive Towers languished with its repairs undone and its remaining residents reconsidering their living options.

By 1993, the situation had become critical, and Grant started pleading with the co-op's advisors for more help. One of them recommended that the board hire a mortgage broker. Patrick Niland, president of First Funding met with Grant, the co-op's board of directors, and several sponsor representatives to explain his strategy for the co-op.

"My first step was to try to get HUD to restructure its existing loans on the building because that should have been the fastest and least costly solution," recalls Niland. "However, when it became clear that HUD would not move quickly enough, I switched to CPC [the Community Preservation Corporation]. I had seen them do tough deals before, and I thought that they might consider Executive Towers if I could show them a light at the end of the tunnel."

CPC is a private non-profit mortgage lender that provides loans to build or renovate affordable housing throughout New York State. It was founded in 1974, back when a housing crisis plagued Harlem, the South Bronx, and other nearby areas. Since then, CPC's sponsor pool has grown to include over 90 banks and insurance companies. Its loan volume tops $200 million per year, and its servicing portfolio exceeds $1 billion.

To prove his case with CPC, Niland prepared a detailed history of Executive Towers, a thorough assessment of its current physical and financial condition, and a comprehensive analysis of its funding needs. He presented this package to Gunnel Rydstrom, a CPC loan officer who specializes in Bronx properties.

At first, Rydstrom was doubtful. "Co-ops can be very fragmented. The sponsor of Executive Towers was not focused on the building on a day-to-day basis," she explains. "Pat had to convince the sponsor that this (loan with CPC) was worthwhile, and that it was going to work. It requires a strong person to pull things together and to keep everyone on course. Pat made a lot of diplomatic efforts in really communicating the process and keeping the ownership entities together."

Shuttling among Rydstrom at CPC, Grant, Ndreu at Insignia, and the co-op's board of directors, Niland negotiated a two-part construction loan that paid off the building's existing first and second mortgages with HUD and provided $3.5 million of new money for repairs. He then paired this loan with a 12-month forward commitment for a new 30-year self-liquidating mortgage of $8.75 million. CPC's package required that the co-op complete its massive renovation project within one year – or face stiff penalties for every month that they were late.

To meet this ambitious schedule, Niland urged the board to hire a construction manager to oversee the work.

He assured them that the long-term savings from beating CPC's deadline would more than cover the extra cost. "Back when I pushed the board to make that decision, I couldn't quantify those savings," he admitted, "but my own past experience as a construction manager had taught me that the savings would be substantial."

"We all had the same common goal," says Philip Perkins, current president of the Executive Towers' board and a member during the renovation process. "The only battle we may have had on the board was how much we could squeeze out of the vendors to make sure they did the most work, to get as much from the wish list as possible. So we hired a construction manager who was able to use his expertise to garner up bids from various construction firms. He brought everything back to the board, and we decided what we wanted to do."

That manager was Warren Grossman, president of Insignia Construction Management (ICM). "Warren did a presentation and convinced us to go with his method of bidding out the jobs," says McClain. "Thanks to his conscientious management, we didn't have a single maintenance increase during the course of the renovations."

Grossman personally directed the project and wasted no time getting started. "As soon as we got a letter of intent [from the board], we started hanging scaffolds," says Grossman. "While the lawyers were rushing through [each] contract, we were on a parallel path manning the job, even though it was winter."

With residents still living in the building throughout the project, ICM had to work closely with building management to maintain adequate access for workers, material, and residents. "We had a problem because there are only six elevators in the building," Grossman notes. "That's for garbage, for people moving in and out, for everything. So we had to get a good jump on the exterior and window jobs before we could start the elevator job, because half the elevators [would be] shut down until that was completed."

Even with this extraordinary level of coordination, however, the renovation ran into obstacles from the residents themselves. "I don't care if you live on Fifth Avenue and you've got a million dollars," says Goggins, "you always have a tenant you want to hit in the head."

"When you have to deal with a lot of people, sometimes it can get a little crazy," acknowledges Perkins. "For instance, when we did the windows, people wouldn't let [us] in their apartments. We did it when it wasn't exactly warm, so [we] wanted to do it very quickly, go in and go out, and some people just wouldn't let [us] in. That went on for months. Eventually, you force them one way or another to let someone in to do the replacements. People are people."

In the midst of these conflicts, McClain and the board realized that the success of the project required them to gain the trust of the residents, whether they were shareholders or renters. They scheduled a Christmas holiday party for everyone in the building, a rare opportunity for people to meet and talk with one another socially, without the tension of board meeting politics.

"It created a more congenial atmosphere," says McClain. "They began to trust us a little more. It's an educational process: the more information we could share with the residents, the more comfortable they were that we were working in their best interests."

With communication came teamwork, which led to economies of effort. Grossman had promised cost savings at his first meeting with the board, and he was willing to put his money behind that promise.

"Our proposal included a guarantee that we would complete the job at least $250,000 below the amount estimated by their engineers," he says. "But we did better than that. For example, in the first phase [the exterior masonry work], the estimate was slightly over $1.6 million. But we completed it for slightly over $800,000 which left enough money for a total lobby renovation, restoration of all the balconies, and new sidewalks, none of which were in the original budget."

In the end, despite access problems, winter conditions, and multiple construction crews, Grossman's team shaved almost a million dollars from the total job. This gave the board the opportunity to complete even more improvements, like a new security and intercom system, that again made Executive Towers a desirable property.

While the renovation progressed, the deadline on CPC's forward commitment grew closer. At the same time, interest rates had been falling so dramatically that CPC felt obligated to reduce the interest rate on Executive Towers' forward commitment.

"CPC wanted us to close at 8.75 percent," recalls Grant, so he and Niland "looked at this thing and we said 'no.' Interest rates were still falling. Why should we go and close with CPC at such a high rate?"

Meanwhile, a shining, rehabilitated Executive Towers was beginning to attract interest from other funding sources. "People were calling up telling us that they could offer us this, that, and the other," he continues. "But some wanted balloon payments, and some wanted other commitments. I said 'no,' a co-op cannot do that."

Grant and Niland had been watching the drop in interest rates for some time, hoping they would fall enough to justify the costs of starting the refinancing process all over again. Chief among those costs would be the loss of the good faith deposit Executive Towers had paid to CPC to secure the first loan.

But, by late 1998, the time was right. "We'd locked a rate of 9.6 percent on the forward commitment with a non-refundable good faith deposit of $87,500," Niland says. "But I could see that a new loan at current rates would recoup that loss in about six months. So it was worth leaving all that money on the table to get a better deal." Ironically, the lender Niland found to provide a better loan was once again CPC, but this time as a seller/servicer for Freddie Mac.

"Pat took the bull by the horns and went back to CPC, and got them to focus on this project," says Aaron Shmulewitz, a partner with Parker, Duryee, Rosoff & Haft, and the attorney for Executive Towers. "After a hell of a lot of work on Pat's part, he got them to offer what I think is a very, very outstanding deal for a project of this nature."

When the mortgage finally closed in May 1999, Niland secured an interest rate of 7.25 percent, 235 basis points (2.35 percent) lower than the rate in the original forward commitment. "So all along, it was a win, win, win for everybody," says Grant.Today, unit sales at Executive Towers are at an all-time high. "After we finished the renovation, sales increased by almost 50 percent, an incredible turnaround," observes Grant. By mid-1999, "we already had ten sales. In the entire year of 1996, we had only eight sales."

"We're almost at full occupancy at this point," adds Perkins. "The idea now, though, is to get as many people as possible qualifying to purchase. When the building went cooperative, everyone did not have to buy. But the cooperative percentage – the actual share – is up considerably from the time I moved into the building. Our goal now is to make sure that [we are] known as a class A-1 building...It's all to make the residents comfortable coming home."

— Randi Minetor

Corrections

In the December issue, we incorrectly listed the fax number and e-mail address of 1-800-Chute-Me.

Due to a printer's error in the AKAM Associates advertisement on page 8 of the December 1999 issue, the number of units in Hilltop Village Cooperative #4 in Queens was inadvertently omitted. The number is 308.