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The New York Times

Real Estate



Still a Beacon, Parkchester Climbs Back

By JOSH BARBANEL

FOR a generation after it opened in 1940, and before it stumbled into a period of decline, the Parkchester apartment complex in the Bronx was a symbol of the American Dream, a meticulously planned community for 42,000 with open space and crisp well-maintained buildings. Last month, that dream came alive once more for Dulal Nandi, an immigrant from Bangladesh and an assistant manager at a Duane Reade drugstore in Manhattan.

Just a few weeks ago, Mr. Nandi and wife, Supria, bought their first home, a one-bedroom condominium on the 10th floor of a red brick building at 1919 McGraw Avenue, just around the corner from a playground. They moved just in time: they are expecting their first child next month.

Mr. Nandi's purchase, for \$58,000, is a symbol of a turnaround under way at Parkchester, one of the first large-scale private housing developments in the country. Not long ago apartment prices had collapsed and most were scooped up by investors looking for rental income.

Now, a transformation has brought new hope to a project in decline — and produced many millions of dollars in potential profits, at least on paper, to the team that was brought in to save it, including a not-for-profit housing group.

After deep decline, huge 1940 complex is being renovated and condo values are rising.

Only a decade ago, Parkchester, which has 12,271 apartments, was in the midst of a downward spiral, wounded by a faltering housing market; ill-timed decisions by the sponsor of its condominium conversion, who still owned much of the complex; and a crumbling and outdated infrastructure. Prices of condominiums plummeted; banks foreclosed on hundreds of apartments; and complaints were on the rise about problem tenants, noise, drug dealing, prostitution and garbage. There were fears that the lingering problems of the South Bronx — crime and poverty — were moving eastward to Parkchester.

The situation was so bad that the sponsor of the condo conversion at Parkchester, Harry B. Helmsley and partners, struggling with more than 700 vacant apartments that they had kept off the market, sold the 6,362 money-losing apartments they still owned and the rest of their interests in Parkchester — a shopping center covering nearly 500,000 square

feet of space, including a Macy's department store, and five parking garages — for \$4.5 million in 1998.

But now there is new wiring, windows and plumbing in Mr. Nandi's apartment. Condo prices have risen and are at or above the peak levels of the 1980's. Most sales are now to homeowners like Mr. Nandi. Rents on apartments still held by the sponsor or by investors are rising, and there is a waiting list for some rental apartments.

Tenant screening is being strengthened, and a new charter school is scheduled to open nearby in the fall. Yet many residents say it may take years to restore the social fabric of the community.

The purchasers of the Helmsley interests in Parkchester included the Community Preservation Corporation, a not-for-profit group founded to channel financing from banks into struggling neighborhoods. The Parkchester purchase was made through a partnership that included a for-profit subsidiary that invests directly in troubled properties.

The community preservation group played a critical role in building political and civic support for a \$220 million renovation of the apartments at Parkchester. It is now a beneficiary of the turnaround, with the value of its holdings rising along with those of other owners.

The group and its partners have promised the

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financial institutions underwriting the improvements not to begin selling apartments until the renovations are complete in the next year or two, and perhaps far later. But in the meantime, with rents up sharply in Parkchester, the development will generate significant income over the next few years, C.P.C. officials said.

"There is a lot of equity; maybe we will have a bit of money," said Michael D. Lappin, president and chief executive of the Community Preservation Corporation. "If we have more money, we will spend more money to do what we always do: restore more communities and help restore more problem properties."

Much of the rebound of Parkchester has been attributed to a complex plan that allowed the two condominium boards in the complex to finance the renovations and solve problems — leaky pipes; drafty, warping windows; obsolete wiring — that had scared off many potential purchasers.

But, brokers say, demand for Parkchester apartments has also been driven by the rising housing prices across the metropolitan area, which pushed up prices across the Bronx, long a laggard, by more than 15 percent a year for several years running.

First-time buyers, who were enticed by low interest rates but priced out of homes in New Jersey and then in other sections of the Bronx, found they could afford to buy condominiums in Parkchester, brokers say.

And other forces were at work as well. The new investment partnership reversed some of the mistakes made by the prior management, fixing up and renting out long-vacant apartments that had deteriorated. The partners also renovated commercial areas, added some national retailers to the mix and negotiated a new 15-year lease with Macy's, which built its first branch store there in the 1940's.

"Prices went up because a lot of people can't afford to buy one- or two-family houses any more," said Anthony Jaundoo, a broker. "You can own here for a little as \$7,000 out of pocket."

But Mr. Nandi's broker, Zakir Kahn of Parkchester Real Estate, said, "The main reason the price is going up is the renovations." He said that after years of sales from speculators to speculators, new buyers were coming in, reflecting a mix of racial and ethnic groups and jobs. There are city employees, taxi drivers, restaurant workers and workers in retail like Mr. Nandi.

A Phenomenon

42,000 People On a 129-Acre Site

Parkchester, although largely forgotten today in the ever-changing whirl of New York real estate, was something of a planning phenomenon when the Metropolitan

Life Insurance Company put it up in 1938 to 1942 on the 129-acre site of a Catholic home for wayward boys in the east Bronx. A six-by-seven-foot architectural model was on display at the company's exhibit at the 1939 World's Fair.

It provided rental housing for a community of 42,000 working people in 171 buildings arranged around a central oval and two broad avenues. It had playgrounds and landscaped pathways, its own shopping complex and movie theater. The sameness of the red brick buildings was broken up by 500 terracotta statues built into the corners of buildings and small decorative plaques with nature scenes above many building entrances.

Parkchester was an early model for Stuyvesant Town and Peter Cooper Village, which were built in Manhattan after the war by Metropolitan Life. But by the late 1960's, the project was suffering.

Rents and profits were limited by the city's rent control laws, and in 1968, with Metropolitan Life facing accusations of racial discrimination at its developments, it sold Parkchester to Mr. Helmsley and his partners. In the 1970 census, Parkchester's tracts were still 98.8 percent white; by 2000, that was down to 20 percent.

The Helmsley group converted Parkchester to condominiums in two stages: the Parkchester North Condominium in 1974 and the South 12 years later. It carried out the conversions in the face of opposition by tenant groups and local elected officials.

Ken Patton, dean of real estate at New York University and a former chief operating officer for the Helmsley organization, said the Helmsley family made a critical mistake in keeping a large number of apartments vacant in preparation for sale.

When the real estate market faltered, the owners were left with vacant apartments, and with condo charges to pay. Instead of investing in the property, the sponsor looked to cut expenses further to reduce losses. Prices remained high, Mr. Patton said, through the 50th anniversary of Parkchester in 1990 and then began a rapid descent.

The Community Preservation Corporation purchased the Helmsley property through its for-profit subsidiary, CPC Resources, with two experienced real estate investors, Morton K. Olshan and Jeremiah W. O'Connor, and set up the Parkchester Preservation Corporation to run it. They developed a plan to finance the renovations: the sponsors' units would be used as collateral for a loan to the entire condominium and would be paid back through higher condominium charges over 30 years.

These in turn would be offset in part through abatements of real estate taxes that were enhanced through legislation adopted by the State Legislature; state mortgage insurance to lower interest costs, and the introduction of electric meters, which shifted the cost of electricity, previously covered by condo charges, to owners and renters.

Mr. Lappin said getting approval of the condominium unit owners was extremely difficult. He reached out to local church leaders and political leaders to build sup-



John Marshall Mantel for The New York Times

Ben Gonzales, a sculptor and a retired art school teacher, moved into Parkchester in 1979 and bought a ground-floor unit with an unusually high ceiling, a private entrance and a yard at the inside price of \$15,000.

port for what he was doing. Before winning their first agreement in the Parkchester South Condominium, the investors agreed to turn over a parking garage for a community center and to provide an annual contribution of \$100,000 a year for 10 years. They agreed to a fixed price contract for the work in the south section, which eventually cost them \$8 million in cost overruns.

There were angry meetings and lawsuits, but by January 1999, the renovation of the South Condominium, where the sponsor held a majority of the units, was approved and the work was completed in March 2003. In the North Condominium, the first phase of work was not approved until August 2002, and work is not scheduled to be completed until July 2005.

The Renovation Rising Charges, Rising Values

The average apartment owner will see the condo charges rise by \$92 more a month in the south, and \$145 in the north, according to the Community Preservation Corporation. But these will be partly offset by \$63 a month in property tax abatements in both developments. The current average charges are about \$430 a month in the north and about \$340 in the south. To blunt the impact, the sponsors are offering subsidies to low-income elderly tenants and subsidizing part of the increases in the north for four years so they can be gradually phased in.

Joseph Houlihan, an appraiser with Houlihan & O'Malley Real Estate Services, has plotted the changing values of apartments in Parkchester. He said there were several dozen investors owning 5 to 150 apartments, some purchased in bulk from banks for as little as \$10,000 a unit.

In 1996, before the renovations began, he said, the value of a typical one-bedroom apartment was \$22,000 and rose only modestly over the next three years. But beginning in 1999, the value of a one-bedroom apartment began to soar, more than doubling in value to \$60,000 in the South Condo and \$52,000 in the North Condominium by the end of 2003.

Larger apartments also more than doubled in price, with two-bedrooms worth \$80,000 in the South and \$72,000 in the North, and three-bedroom units an average of \$110,000 in the South and \$105,000 in the North. Brokers say some large apartments have sold for as much as \$125,000.

Rents have been rising too, with rentals of one-bedrooms by the sponsor going for \$810 to \$890 a month, depending on size and location, and two-bedrooms for \$1,000 to \$1,100 a month, Parkchester officials say.

Yet while much of the physical deterioration at Parkchester appears to have been reversed, repairing the social fabric of the community may take longer. Many residents complain that in the lean years, many investors rented apartments to anyone with a guaranteed government rent subsidy without adequate screening, bringing in noisy troublesome neighbors, including drug dealers.

Amar Taborn has fond memories of Parkchester when he moved there with his fam-

ily in 1979 as a child. But two years ago, when he moved back to live in the apartment, which his mother had been renting out, he found the development changed. "In the 90's a lot of people just fled," he said. "The grounds weren't kept up. Different types of people came in. They left garbage in the playgrounds."

Harry L. Brown, the president of the North Condominium and a retired postmaster in Hartsdale in Westchester, said he is working closely with the South Condominium to develop tougher screening criteria for tenants seeking to rent from individual owners. They would include criminal background checks, credit checks and a requirement that renters show evidence they have the income to pay their rent.

"You've got to have a job or you've got to have the income," he said. "It is important because it gives you a stable community."

Even many of the private investors who own blocks of apartments say they support stringent screening, at least until they find tenants rejected for what they view as technicalities. Alex Harrison, an investor in Parkchester who owns dozens of apartments, said he "took the roller coaster ride down and the roller coaster ride up" as unit prices fell and came back in the 1990's and he approves the work done by the new sponsors. "I don't want to call them saviors, but they did clean the place up," he said.

Margaret Walsh, the president of South Condominium, who has lived in Parkchester since 1943, said the condominium staff was also trying to make sure new tenants had a better understanding of the rules and regulations and were prepared to abide by them. "There are people coming in who don't know how to live in close proximity to one another," she said.

Amid this concern about rebuilding a community, there are some residents in Parkchester who already feel comfortable and have no plans to leave anytime soon.

Ben Gonzales, a sculptor and a retired art school teacher, spends his days in what is called a "terrace apartment" in a Parkchester building on McGraw Avenue. It is a ground-floor unit with 10-foot-high ceilings, a private entrance and a yard. His living room is crammed with his artwork, including a Plexiglas case of paper sculptures cut from single sheets of paper.

A native of the Philippines who came to the United States for treatment for a war injury during World War II, he moved into Parkchester in 1979 and bought at the inside price of \$15,000. He then watched in distress as the staffing and maintenance declined. "We used to have two supers for one building; now we have one super for two buildings," he said.

On paper, the sponsor's investment is now worth hundreds of millions of dollars, based on the values that apartments at Parkchester are fetching today, and the total of \$40 million it has invested to date in the project.

But Community Preservation Corporation officials say the story is more complex, since they agreed to use all of their apartments as collateral for the loans the condominiums drew on to pay for the renovations.

As a result, they say, any time the sponsor sells an apartment — once the moratorium on sales has passed — it will have to pay off the portion of the condominium's debt secured by that apartment and take over that

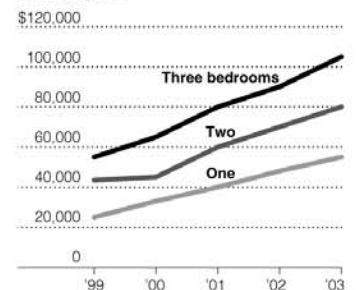
part of the loan. So, after taxes, they say, the sale will produce little or no cash.

Mr. Lappin said the sponsors had promised Freddie Mac, which provided almost \$130 million in financing, not to sell units until September 2005 and have told residents that they will not sell units until the last of the renovations have been completed around 2006. He said the partners have had only limited discussions on what to do afterward. "It is easy to lose money," Mr. Lappin said. "It has not been our objective to do that. We have been able to fulfill our mission and do it in a businesslike way."

Unlike traditional charities, the C.P.C. depends on investments by banks and insurance companies, not private donations. It reported \$679 million in assets and a net worth of \$54 million in its most recent annual report. In 2002, Mr. Lappin received a salary of \$717,000, according to a C.P.C.

Apartment Values Increase

Rise in value of Parkchester apartments, based on sales. Figures are for Dec. 31 for each year.



Source: Houlihan & O'Malley

The New York Times

filing. He said his salary was based on a study by his board's compensation committee and has not come out of any revenues from Parkchester to date.

Parkchester is so large that even a small change in market values and rents can have a large impact on the sponsors. And in developing the workout at Parkchester, size was part of the problem: it was just too large and complicated to attract the interest of private developers, Mr. Lappin said.

Philip Grossman, an executive vice president for community real estate at Fleet Bank, which participated in construction loans for the renovation, noted: "It was an achievement to have the backbone to go in and take on a project of this size. Nothing like this had been done on this scale before." Meanwhile, Mr. Nandi is enjoying his new apartment, though he has not yet been able to buy anything to put in it.

Two years ago, he went back to Bangladesh and returned to New York with a bride. They worked at the same Duane Reade, but when his wife stopped working during her pregnancy, the \$430 a month common charges and \$450 mortgage became a struggle. "She has to go work," he said. "I can't even afford any furniture."

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James Estrin/The New York Times

Dulal Nandi and his wife, Supria, recently bought their first home, a one-bedroom apartment at Parkchester, for \$58,000. The monthly common charge is \$430.