

# APARTMENT FINANCE TODAY

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## Surviving the Slowdown

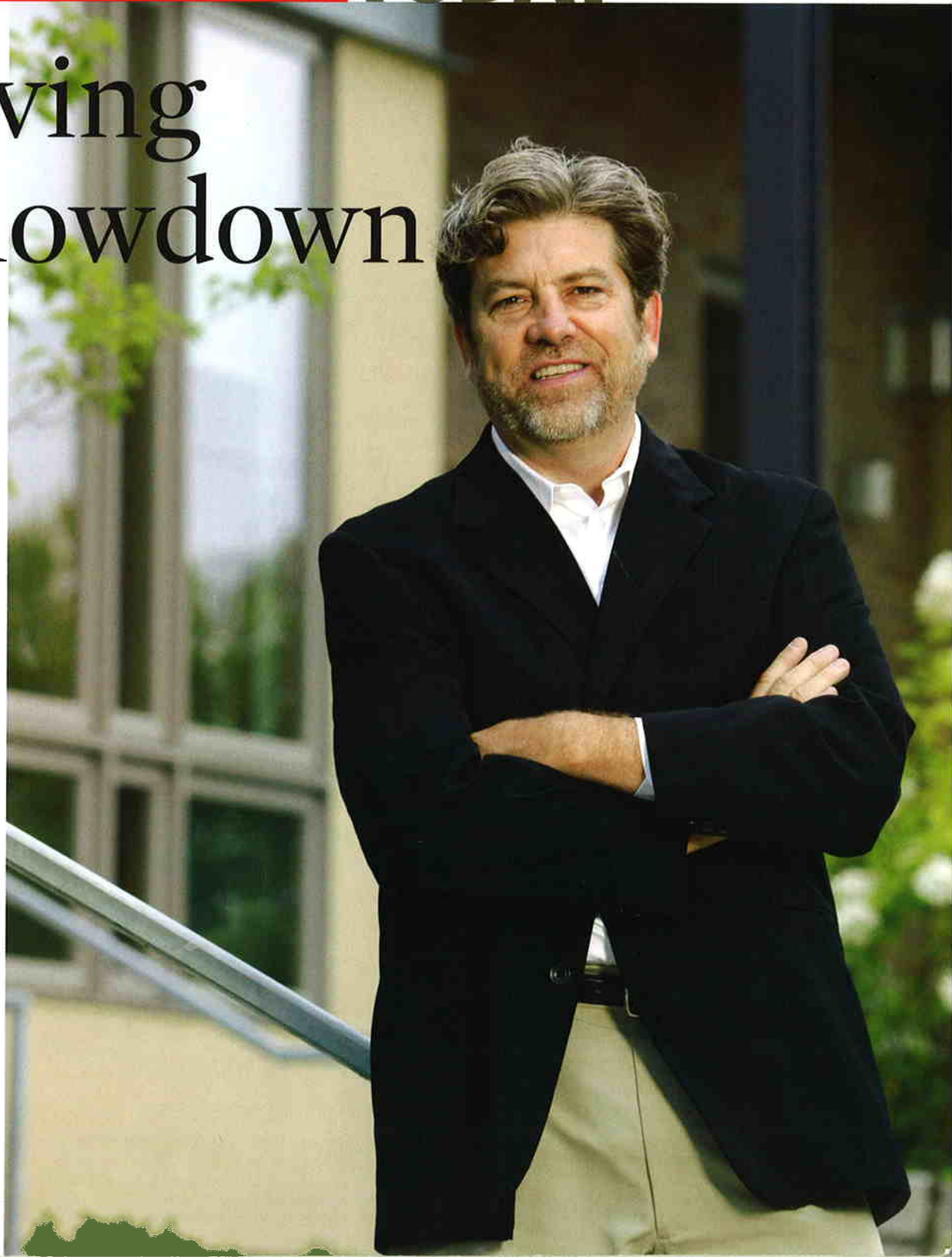
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# Staying Above Water

The Lander Group has scaled back its condominium development to just one project that it knows can work. By Bendix Anderson

**M**inneapolis, Minn.—In a market glutted with condominiums, the Lander Group is focusing all of its development efforts on constructing 2626 West Lake, a 46-unit condominium project where the average unit is expected to sell for more than \$1 million.

“We could see the oversupply coming,” said President Michael Lander.

Although the company controls the development rights on enough land to build hundreds of new, for-sale units at as many as six sites, Lander executives decided to put those deals on hold until the softening condominium market recovers.

Luckily for the Lander Group, it had an ace in the hole with 2626, a 1.5-acre site in a prime location. Set between two bustling, downtown-style shopping areas, the property is also located on a narrow isthmus separating two lakes. Whether it's of Lake Calhoun just across West Lake Street to the south or the Lake of the Isles a few hundred feet to the north, every single unit at 2626 has a view of the water.

## Hedging risk

The Lander Group has also made 2626 unusual by creating some very large units, with sizes ranging from 1,500 to 7,000 square feet. To make room for these huge condominiums, Lander shrank the number of units.

The site's zoning would have allowed as many as 98 units, but instead will have less than half that number.

“Doing a more boutique product allows us to hedge our risk,” said Nate Wissink, a project manager for the Lander Group.

And to mitigate the risk of investors and flippers purchasing the units and then competing with Lander on price when they re-market the condominiums, the company has put in place strong disincentives for such behavior.

While many developers still offer to sell units for less than a 5 percent deposit, the buyers at 2626 are required to put down 20 percent.

## Easier financing

That's deeply discouraging to investors. Not only is the risk much larger for them, but the yield for a condominium investor is dramatically less when they have to put down more money up front.

These large downpayments will also make 2626 much easier to finance, because the developer will amass a significant amount of equity

## Condominium Crash Update

- Major condominium projects have been put on hold in markets including, among many others, Las Vegas, South Florida, and Philadelphia.
- The U.S. median sales price for existing condominiums was \$225,800 in the second quarter, down 0.3 percent from a year earlier, according to a survey of 57 markets by the National Association of Realtors.
- Nationwide, sales of existing homes dropped to 6.7 million in the second quarter. That's down from a high of 7.2 million in the second quarter of 2005, and the lowest rate since 2003, according to the National Association of Realtors.
- In Miami-Dade and Broward counties, Fla., there are now 52,000 residential properties listed for sale on the multiple listing services. That's about four times the 14,000 properties listed 12 months ago.
- In California, 20,752 homeowners defaulted on their loans in the second quarter of 2006. That's more than one-and-a-half times the default rate of just 12,408 the year before, according to DataQuick Information Systems, a real estate tracking firm in La Jolla, Calif.



Michael Lander and his company, the Lander Group, are aiming for success by keeping a narrow focus. (Photo by Bruce Kluckhohn)

from the pre-sale deposits alone.

In addition, the Lander Group must sell 40 percent of the units before it can close its purchase of the land and must close 50 percent before it can begin construction.

At press time, the Lander Group had sold nine of the 46 condominiums, and was using the information it got from those sales to set the prices for the remaining 37 units.

The units are scheduled for completion in 2008. The developer expects the project to bring in a total of about \$50 million in sales income, averaging a little less than \$1.1 million per unit.

In contrast, the company has been averaging about 75 condominium completions, or \$25 million in sales a year, for the past several years.

Filling the building with owner-



"The good news is that nobody can build around us anything remotely like what we have here," said Michael Lander, president of the Lander Group, about 2626 West Lake St., which will be finished in 2008.

occupiers instead of investors is likely to make the project more attractive to its target buyers: older couples or individuals whose children have

moved out.

2626 is located on the edge of a large neighborhood of historic single-family homes where many wealthy families raised their children. If any of these empty-nesters are now interested in moving into a condominium, 2626 is the nearest, best option.

Many condominium developers claim that the homes they build are perfectly designed to attract baby boomers. But genuine empty-nesters are unlikely to decide to leave the home they've lived in for decades to move into a condominium in one night, no

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matter how good the pre-sale party is.

So 2626 has adapted its selling strategy to gradually woo older adults over the course of several visits. The opening party for the project was a sedate affair in which perhaps a dozen potential buyers made appointments that week for a second, more lengthy visit.

To help attract these buyers, 2626 offers several different packages of finishes, including unfinished units that can be decked out to their buyer's specifications. People who move to 2626 from single-family homes can replicate the finishes and even the floor plan of their old home.

"One of the challenges right now is creating a sense of urgency," said Lander. Having a unique project with

only a limited number of available units helps create that sense of urgency, especially considering the fact that Lake Calhoun's shoreline is almost fully developed. "There's not going to be any more development on this lake anytime in the future," Lander said.

### **Downsizing**

No matter how good the market looks for Lander's top project, though, projected sales don't pay the bills.

Fortunately, thanks to various joint-venture agreements with the city of Minneapolis, it isn't costing the Lander Group to delay its other projects.

"We withdrew before we suffered financially," Wissink said.

Lander had considered building 40 condominiums on yet another site and even began trying to sell units.

But the pre-sales on the project were disappointing, and Lander has since changed the deal into "38," a mixed-use development of offices and retail space.

Meantime, to cut operating costs, the Lander Group has shrunk from an 11-person staff to seven people. "The most difficult thing is the downsizing of our company," Lander said.

And in its other back pocket, the company holds yet another ace: rentals.

Lander owns a new, fully occupied apartment building that could have been converted to condominiums. But the income from that building, along with other income-producing properties like the office and retail space at 38, will help Lander pay its overhead through the long dry spell until 2626 is finally completed. ■