New York City

Todays market is an exciting place for developers of housing units in New York City

Joseph Cohen

East River Properties LLC

The residential market in New York City is facing extremely limited inventory with a citywide shortage that now exceeds 550,000 housing units. Despite the strong interest from buyers and renters, and interest rates that are at all-time lows, investors and builders in NYC simply cannot keep up with demand.

For us at East River Partners LLC, (ERP) this is an exciting time to be a real estate developer. Founded by Jody Kriss and myself, ERP develops and acquires residential properties in desirable neighborhoods primarily in Manhattan and Brooklyn. ERP is currently underway with six condo and rental projects in NYC.

To capitalize ERP's next round of projects, we raised a fully discretionary fund – ERP Fund I. The first round of the fund closed in November of 2012, providing enough dry power to invest $75 million in new deals. The fund allows us to be nimble and aggressive in acquiring new properties, and we look forward to a busy 2013 deploying this capital.

The target for the fund is mid-sized residential projects mostly in Manhattan and Brooklyn. Projects can potentially include condo conversions, value-add rental deals, converting commercial buildings to residential, new ground-up construction, and recapitalization of incomplete projects.

We are particularly bullish on condo development. The rental housing shortage is well known, but the dearth of for-sale supply is even more dramatic. While construction financing for new projects was extraordinarily scarce between 2008 and 2011, it particularly precluded for-sale projects. Since larger condo projects take at least three years to complete, even projects financed in 2011 won't be ready until at least 2014. The reduced condo supply is occurring at a time when interest rates are at all-time lows, making home-ownership affordable and attractive relative to soaring rents.

In particular, there appears to be a lack of larger, family-size units. In Manhattan, for example, only 5% of available rental units have three or more bedrooms. And yet buyer and renter demand for larger apartments is booming; since 2000, the number of children living in Manhattan under the age of five has increased by more than 30%. We at ERP look at floorplans with inch-by-inch level of attention to detail to craft apartments that are geared toward this emerging demographic.

We also believe there is a terrific opportunity to buy existing rental buildings, mainly in secondary markets in Brooklyn that are becoming primary markets. As residents are priced out of downtown Manhattan or the gentrified neighborhoods of Brooklyn, we have witnessed a virtuous circle in certain neighborhoods–new residents have spurred improved shops, schools, grocery stores, restaurants, and services–attracting still more residents and improved services. This self-propelling momentum leads to rising property values. We're expanding ERP's footprint further east and south in Brooklyn where it is feasible.

A competitive advantage that ERP Fund I offers to investors is that it combines the traditionally bifurcated roles of passive real estate investment funds and active real estate operators into one vehicle. As a real estate developer, ERP is more intimately involved and knowledgeable about the operations of its properties than fund managers investing passively through operators. Also, the fund's fee structure eliminates the "double dilution" charged to investors by fund managers who pay developers a share of the profits and then take a share of the profits for themselves.

We look forward to hearing from you about deals and investment opportunities.

Joseph Cohen is a co-founder of East River Properties LLC, New York, N.Y.

Insurance coverage issues for storm-related damage by Goldberg & Connolly

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permanent part of the finished project will typically be "covered property" under a builders risk policy. Therefore, for damaged contractor equipment, a claim might be submitted, preferably against a contractor's commercial property policy, rather than its builders risk policy. Alternatively, you also might have a separate construction equipment floater or a vehicle-related policy that applies.

Physical damages to unfinished project work are typically covered, including interior damage, provided that the peril causing the damage is a covered cause of loss. Keep in mind that such damages may have more than one cause, with some covered and others not. Therefore, in such instances, you may need to argue for at least proportionate coverage.

Coverage for damages will shift from a builders risk policy to an owner's property-type policy when the work is "completed." The exact definition of when "completion" is accomplished and, therefore, the shift occurs will depend upon the particular language of the policy.

For damaged materials, both contractors and owners have "insurable interests" in physically damaged materials at the construction site, and off-site, so both the builders risk policy and an owner's commercial property policy may provide coverage. For example, storm-caused destruction of a fabricated piece to be incorporated into a new, unfinished construction project, which was still situated at the fabricator's location at the time of the casualty, may still be covered under a builders risk policy. Review all the policies for covered "locations" and "items" of loss.

Economic harm from delays caused by storm damage may also be covered in the builders risk policy as "soft costs." Be aware that such coverage usually excludes coverage for a 30-day delay or less. Be creative. For instance, lost time and labor shortages (and resultant project delay) incurred because your workers were home dealing with their own storm-related problems might be covered. You should review your policy, as well as your specific arguments, with your broker.

Business Interruption Claims

Insurance will cover costs incurred by a storm-damaged construction company to stay open (fully or partially) for business. For example, if extra expenses are needed to purchase fuel or other necessities to support the business operation, then a business interruption policy may provide coverage.

Storm-caused delays to business operations resulting in lost income may be covered under business interruption policies. For example, should the storm have damaged a key fabricator's facility, such that components to be incorporated into the finished project are destroyed and/or completion delayed, a business interruption policy might provide coverage for resultant economic losses.

Business interruption insurance coverage can also be used to recover net profits lost due to storm damage. Note, however, that if the policyholder does not take all reasonable steps to reduce or mitigate its losses, coverage may be compromised.

The costs you incurred to "batten down" your business against an oncoming storm may be recoverable under a business interruption policy.

Contractor's Commercial Property Claims

Under the terms of your commercial property policy, you may have coverage for damages to your own commercial property, as distinguished from your work on the project, or your lost business income.

These commercial property policies are known as "manuscript" policies because each carrier creates their own, different coverage and exclusion language in their particular policy documents. Therefore, you need to carefully review your specific policy with your insurance advisors to determine the best manner in which to pursue the recovery of your storm-caused property damage.

In the risk-burdened construction industry, storm-related damages frequently involve first-party property damage claims by contractors, subcontractors, CM's and/or owners for fire, flood, builders' risk, business interruption and project delays. In addition, CGL policies provide protection against third-party liability claims for personal injury and wrongful death. G&C's Policyholder Insurance Coverage Group possesses an in depth familiarity with both construction-related insurance coverage issues and the construction industry itself. This enables us to help our clients maximize their recovery for storm-related damages both on a site and/or on their company's own property.

Henry Goldberg is the managing partner, Mitchell Reiter is a partner and Clinton Hein is a senior associate at at Goldberg & Connolly, Rockville Centre, N.Y.

Get to know Ostrowsky of Investors Home Mtge.

David Ostrowsky

Investors Home Mortgage

Can you give me some background information on Investors Home Mortgage and Investors Bank?

Investors Home Mortgage is a wholly owned subsidiary of Investors Bank. The bank was founded in New Jersey in 1926, and up until 2010 our retail presence was exclusively in New Jersey. In 2010 we acquired Millennium Bank which in turn brought our first retail presence to New York. We have continued to grow in New York both organically and via acquisition. Last year we acquired Brooklyn Federal Savings, and most recently, we acquired Marathon Bank. The most telling statistic of our growth can be seen by looking at our assets. To end fiscal year 2007, the bank had assets of $5.7 billion. After the acquisition of Marathon, we are now a $12.4 billion dollar bank. To more than double in size during the years that define the financial crisis is evidence of how well the organization is run.

How does Investors Home Mortgage distinguish itself in today's competitive marketplace?

For one, our selection of loan products is tailored to serve the NY metro area. We have our own portfolio programs which is a necessity in NYC and the surrounding areas given the demand for jumbo financing. In New York, there are so many deals that will not conform to Fannie Mae, Freddie Mac, or FHA guidelines whether it's because of the loan amount or the building. By providing financing for jumbo loan amounts as well as financing for condominiums that are not Fannie/Freddie approved, we are able to fill a vital void in the marketplace. A second important point is that we are a local lender. In today's market it is not effective if solely the originator is local but the underwriting is done down south, in the Midwest, or on the west coast. Having local underwriters will lead to a smoother process 100% of the time.

Aside from jumbo loan sizes and separate condo guidelines, are there specific portfolio programs you can expand upon?

We are still providing interest only loans which I know are harder to come by today. One program we have that is perfect for new construction financing is our Buyer's Best program. This program allows for an 18 month rate lock with a float-down to market rate within 60 days of closing. Another niche program is our reduced documentation program. This is nothing like a no doc loan circa 2003, but it is helpful for qualified borrowers with 50% equity on a refinance or a 50% down payment if it is a purchase.

What are some of the trends you are seeing recently?

One trend that has become more common is a refinance that doesn't necessarily save significantly on the monthly payment, but will cut the term of the loan significantly. There are borrowers who took out a 30 year fixed 6 years ago and can refinance today into a 15 year fixed with their payment staying the same or decreasing slightly. Of course it is still staggering how much money people can save today on their monthly payments. I have one client who just consolidated a commercial loan he had with the mortgage on his primary residence and will be saving over $3,000 monthly. As with every refinance, the borrower's goals will ultimately determine the best way to structure the loan. On the purchase side, I have been dealing with a lot of first time homebuyers recently. With rents as high as they are, and interest rates so low, many more renters are getting into the purchase market.

David Ostrowsky is the senior loan officer at Investors Home Mortgage, Millburn, N.J.