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Except from ‘The Condominium Question: Evaluating the Lack of Condominiums in Ithaca, N.Y.’

INTRODUCTION

With a fast-growing population, consistent rent growth, and low homeownership, Tompkins County and Ithaca feature one of the most robust rental housing markets in upstate New York. Described by local officials and in newspapers as reaching a crisis, the housing market is a much-discussed topic in Ithaca and its environs. While not a central component of many of these discussions, the lack of condominiums is a growing area of interest for the city and county. Despite demand for these units and vocal support from various branches of city and county government, condominium development has been scant: the county has 143 units and the city has 18 units. Condominiums make up 0.34 percent of the county's overall housing stock, far below that national average of about 4.6 percent.

So why, with a strong overall housing market, expressed condominium demand, and government encouragement, are there so few condominiums in Ithaca and Tompkins County? This report draws on 31 interviews to attempt to answer this confounding condominium question. By synthesizing conversations with city and county officials, local and regional developers, financiers, brokers, attorneys, and Cornell University officials, I examine the possible reasoning for limited availability of condominiums in Ithaca and the surrounding area. Through these interviews, I discuss the real and perceived barriers to condominium construction, and why existing development has focused almost exclusively on multifamily properties.

RESEARCH

I. Introduction

Nearly everyone interviewed recognized a gap in the Ithaca market for condominiums. With a few exceptions, each person interviewed identified condominiums as a major unmet demand in Ithaca. Multiple people cited the results of the Danter Study as a clear indication that the Tompkins County and Ithaca housing markets have an unfulfilled demand for condominiums. Several interviewees expressed surprise that there was minimal condominium development in the area.[1] One interviewee who has been involved in several different roles in Ithaca's real estate market said the lack of condominiums "baffles" him. A real estate developer called condominiums "the forgotten corner of [Ithaca's housing market]." Others interviewees said a condominium development would likely be very successful. One developer said, "I tend to think if someone were to do condominiums in Ithaca, they would sell really quickly, and they'd get a really high price." Another interviewee recognized the hole in the market and said that a condominium development would be a "huge winner," both for a developer's bottom line but also for the overall city. The underlying sentiment from the interviewees was there is an opportunity for condominium development, and a need for more owner-occupied units in the city center. "You would think we would be ripe for [condominium development] but nobody has wanted to get their feet wet in a big way," said one interviewee. The only participants who did not perceive a need for condominiums were three people on the development team for a non-profit developer. They believed seniors would prefer to remain in their single-family homes, many of which are assessed far below the actual value of the property. Thus, downsizing would lead to an increase in tax burden for seniors. These interviewees acknowledged that to many people in upstate New York, homeownership means detached living in single-family homes like the ones in which they grew up, not apartment-style condominiums. According to them,

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[1] Due to the sensitive nature of many of the comments made, all quotations in this excerpt of 'The Condominium Question: Evaluating the Lack of Condominiums in Ithaca, N.Y.' have been anonymized.

homeowners do not want to be attached to someone else's unit. One of the interviewees summed up this mindset by saying, "in Ithaca, a condo doesn't feel like homeownership."

Developers and government officials said many people had approached them to inquire about the possibility of condominiums in Ithaca. The requests have often come from older individuals hoping to downsize from a large single-family home, while still maintaining home ownership. These older people contact developers, government officials, and brokers about the availability of condominiums, hoping for a smaller unit with limited maintenance and, often, in a quality location with walkable amenities. Since a large percentage of this demographic group has been homeowners for most of their lives, ownership is the only acceptable form of housing tenure for them — as one interviewee put it: "once you own a home, it's hard to be a renter again." In addition to that age bracket, some interviewees also cited young professionals who want density and urban conveniences as a major target group for condominiums in Ithaca. One example of this demographic group is professors moving from other college towns and cities to Ithaca. In their previous settings, condominiums were available in the downtown core of the city. Upon moving to Ithaca and finding a lack of condominiums, they are faced with either purchasing a single-family home or renting an apartment. Additionally, two interviewees mentioned transient and part-time Ithaca residents as the major consumers for condominiums. They believed people who only wanted to spend a few months of the year in Ithaca — retirees who travel to warmer climates for winter, or former residents wishing to enjoy the city again — would be the driving factor behind the success of a condominium development. The brokers interviewed similarly noticed the lack of condominiums in Ithaca and mentioned when condominiums and other common interest developments do go for sale, they get "multiple bids and the price generally goes over the asking price." One broker cited as clear evidence for the demand an online listing of condominiums and properties in homeowners' association which featured no properties that took more than a year to sell.

Most developers interviewed had at one point evaluated condominiums for at least one of their Ithaca residential projects. The seriousness of this consideration varied widely; for some developers, a condominium project was a brief, fleeting thought that quickly dissipated during the planning stages, while for others, condominiums were seriously considered until later in-depth feasibility studies produced unfavorable results, such as high-risk returns and limited or nebulous sources of capital. One developer actually went through the condominium development process only to abandon the project shortly before construction began, opting instead to build rental units. The various reasoning for the eventual decisions to pass on condominiums was varied, yet there were some themes that reoccurred in many different interviews. These reasonings will be evaluated throughout the Discussion. I also spoke with three developers who were currently in the planning stages of developments in Ithaca involving condominiums. The factors that influenced their decisions to begin to pursue condominiums will be evaluated. Additionally, I met with two developers who had each taken a condominium project through the construction stages. Their experiences will also be discussed throughout this section. Beyond the developers, I interviewed lawyers, brokers, lenders, and designers who had worked with developers considering condominiums or who had assisted a developer in building a condominium project. In the Discussion, I will elaborate on their role in the process and their observations of the development community. Outside of the private sector, I also met with government officials in such groups as the Planning and Economic Development Department, the Chamber of Commerce, and the Downtown Alliance. These officials, many of whom had robust experience in housing in Ithaca, helped provide strong background information on the topic. Their opinions and worldviews will be used to establish context in the Discussion.

In this section, I begin with an analysis of the legal requirements of condominium development, and then move on to a discussion of the abatement structures that are available for rental projects and not for condominiums. Next, I write about Ithaca's anti-development reputation and how that plays into condominium development. After that, I discuss local developers' goals and existing skill sets, as well as the limited condominium financing landscape in the area. Finally, I discuss existing city efforts to encourage condominium development.

II. ‘A Royal Pain in the Ass’: The Offering Plan

One of the most commonly-mentioned barriers to condominium development was the New York state condominium offering plan. Many of the individuals I spoke with cited the offering plan as a major hurdle for developing condominiums in upstate New York. The offering plan is a document that outlines details of the condominium project that must be approved by the New York Attorney General before any marketing can occur. The offering plan was originally part of the “blue sky laws” which were passed in the early 20th century to regulate the sales of securities — preventing salesmen from selling “the blue sky.” The Uniform Securities Act of 1956, upon which most states’ current guidelines are based, outlined several requirements for the sale of securities (Bragg, 2010). New York’s version of the blue sky laws was passed in 1921. Known as the Martin Act, it was amended once in 1982 and is now organized as New York General Business Law Article 23-A (Keller & Gehlmann, 1988). The law outlines the Attorney General’s power to regulate and enforce securities fraud, including condominium sales. It is important to note the offering plan is not a way for the Attorney General to evaluate the quality of the development. The purpose of the approval process is to ensure the buyer of a condominium is receiving exactly what he believes he is purchasing.

In the interviews I conducted, the sheer length and detail of the condominium plan were regarded as excessive. Many plans exceed 300 pages in length and included specific details on budgets, taxes, projected unit sales prices, and architectural and engineering designs, among other nuances of the project. One lawyer summed it up succinctly, “You’ve got to write down everything you do.” Some participants noted that the legal costs for a six-unit project are comparable to the legal costs for a development with 600 condominiums. These legal costs are likely in the vicinity of $25,000 to $50,000 and can exceed $100,000. A large project can easily spread the legal fee over all the units; these costs become substantial with smaller developments with fewer units. Additionally, the details of specific elements are often required in multiple different sections of the offering plan. One lawyer commented, after finding the necessary information you have to “put it in here and put in that section and there and there.” The amount of repetition makes the offering plan a time-consuming and tedious task for legal offices and development groups. Additionally, the offering plan also makes plans very rigid. Since an amendment is required for each change, developers are often very deliberate in assembling the offering plan, drawing out the process even further. Since a great deal of work — land acquisition, architectural designs, engineering schemes, zoning approval, and others — is required for the offering plan to be completed, condominium developers often have significant upfront costs and larger carry costs than their multifamily counterparts, according to participants interviewed.

After submittal, the Attorney General's office has a 30-day review period before they make a decision. However, according to my interviews, the Attorney General's office can stall the process by pointing out one minor error in the document and extending their review window. One lawyer claimed the Attorney General's office has a "theme of the month," and will make one section of the offering plan its major focus for a brief period. For instance, they will find minor details in the plumbing engineering work to emphasize for a couple of months. The current focus is how the recently passed Tax Cuts and Jobs Act of 2017 will affect the units of the proposed development. One lawyer also said it does not even have to be something as substantive as engineering or taxes, and the Attorney General's office can reject a plan merely because, "You left a comma out." One developer who went through the approval process compared it to the Department of Motor Vehicles: "You get to the front of the line and they send you to the back again because you didn't include this, or you need that." This delay sets the process in motion again and adds at least another month to the development timeline. The combination of all those detailed requirements and additional reviews makes developers "afraid" and pushes them away from developing condominiums. After undergoing a nine-month back-and-forth review process with the Attorney General, the developer summed up his experience with the offering plan bluntly: "It was a royal pain in the ass."

In three interviews, people claimed, since most condominiums in the state are in New York City, the condominium offering plan requirements are tailored to New York City, not the state as a whole. This means the same level of detail needed for a major New York City condominium project is also needed for a small upstate New York project. Other laws in the state feature different requirements, standards, or hurdles for New York City compared to upstate. For these laws, lawmakers "recognize it is two different worlds." Condominium development, on the other hand, features identical downstate and upstate requirements. According to one lawyer with experience assembling offering plans, the Attorney General's office recognizes the difference in development scales and procedures, but fails to make any changes. He said, "We ask the AG, 'Do we really need this?' They understand how things work around here. They just don't care."

Since the vast majority of condominium developments in New York state are in New York City and its immediate suburbs, it follows that the vast majority of lawyers equipped to assemble offering plans are located downstate. This imbalance leaves upstate New York with a limited selection of attorneys capable of putting together a complete and correct offering plan in a timely manner. And among that subset of lawyers, no one is an expert because there have been so few examples of condominium developments. In an interview, one lawyer said condominium law is "a small part of anyone's business," so nobody knows it extremely well. This lack of expertise further exacerbates the difficulties and raises the price of assembling an offering plan.

Members of the Attorney General's office maintain that the offering plan is a necessary component of condominium development, and that the level of detail required by law is important even for small developments outside of New York City:

> To us, we think that purchasers across the state deserve the same information, because it's just information on the function of the condominium itself. Some of these developments upstate, in actuality, may not have as many shared resources or have as many condo board issues, therefore some of the requirements may seem superfluous perhaps, but at the end of the day, they are filing as condominiums, and we say that purchasers need to get full disclosure.

While the developments in upstate New York may be smaller, less expensive, or lower profile than New York City's condominiums, that does not mean they are less complicated, according to employees at the Attorney General's office. "The more complicated issues or the more complicated plans are not necessarily limited to New York City. We see a lot of really complicated land use type issues upstate proportionately as much as we do in New York City," said one interviewee who works in the real estate financial bureau of the New York Attorney General's office. Because of these complicated legal structures, the level of detail required for upstate has to be just as long as for New York City, according to two interviews with individuals in the Attorney General's office. Other interviewees similarly underscored the importance of the concept of the offering plan, although, unlike the Attorney General's office, they acknowledged a simplified plan with laxer requirements and limited repetition would simplify and expedite the process. One interviewee suggested that "the complexity of the [offering] plan should be directly related to the complexity of the project."

III. 'You Pretty Much Need Abatements': Developing Without Tax Incentives

Development in Ithaca has largely remained a local affair. For most of the city's history, developers have been based in the city and conduct most of their work in the county. According to interviews, outside interest in Ithaca is beginning to increase, but out-of-town developers remain a smaller part of the development community. Local developers were originally concentrated on the robust student housing market in Ithaca. Limited research has been conducted on Ithaca's student housing market — notably the area adjacent to Cornell encircled by Cascadilla Gorge, Schuyler Place, State Street and Delaware Avenue, referred to as Collegetown — but its high prices, low vacancy rate, broad quality spectrum, and recent large-scale developments make it a compelling topic for further research. Developers recognized the expanding student housing market and its profit potential, and they focused their investments in that segment of the market. Initially, this meant developers were concentrated on converting single-family homes located around Cornell into rental properties. Developers soon expanded to developing ground-up properties, at first boarding houses and later dwellings built specifically for student housing, but the focus remained on the student housing market, not on the rest of the city. According to one government official, developers were "fat and happy doing student housing." But as development opportunities opened up in other parts of the city, some developers diversified beyond the student housing market by developing rental units for non-student Ithaca residents. One of the initiatives that helped incentivize this migration down the hill to downtown Ithaca and its immediate vicinity was the implementation of the Community Investment Incentive Tax Abatement Program (CIITAP). Originally passed in 2000, CIITAP was introduced to spur high-density development in Ithaca's downtown core. The program was revamped in 2007, and several new requirements were added. These criteria proved too stringent and few developers took advantage of the program. A 2014 restructuring expanded the district and stripped away many of the 2007 requirements, broadening access to the abatement plan. Currently, buildings that receive the CIITAP abatement are awarded an abatement that declines in equal increments on a seven-year timeline. According to one interviewee in the Planning and Economic Development Division in the City of Ithaca, "most of [the CIITAP developments] could not go the way that they were without some sort of assistance." This interviewee also said that all recent projects in downtown Ithaca have benefited from some sort of government "assistance," including CIITAP and federal programs like New Market Tax Credits and the HOME Investment Partnerships Programs. Condominiums and other for-sale housing developments do not qualify for CIITAP and other tax easement schedules. Without the abatement program, high-density condominium development is placed at a disadvantage. One developer said, "to build nice apartments in Ithaca, you pretty much need abatements." For a developer conducting financial feasibility studies, the draw of the abatement can be alluring, since many of the developers bemoaned the city's high property tax rates. If the developer builds rental housing, CIITAP and other tax abatements allow for developers to avoid the full burden of property taxes for seven to 10 years. One developer mentioned how the abatements can be particularly helpful in the first few years after delivery when paying debt service can be difficult. Condominiums do not offer the same benefit, and thus, upon purchase, condominium owners have to pay the full tax rate for their unit. Without the assistance from the government on condominiums, developers choose the incentivized option and build rentals.

IV. 'The Buzz Saw': Ithaca's Anti-Development Reputation

Several interviewees also brought up Ithaca's reputation for being anti-development as a reason for minimal condominium development. To develop a building in Ithaca, a developer has to endure a "highly politicized entitlement process," according to one long-time developer in the city. Another interviewee who was hoping to build several dozen units in downtown Ithaca discussed a series of 20 different planning and design review meetings with community stakeholders. While the company did eventually build the units, these meetings wore his development group out. "They wanted us to hear every voice in the community, accommodate every voice," the developer said. Another developer claimed the "social justice and environmental warriors" try to derail projects, making developing a treacherous and risky task. The overarching sentiment shared by many developers and some brokers, lenders, and lawyers is that Ithaca's anti-development mindset acts as an impediment to the city's population growth and economic success. According to one interviewee who believes "NIMBYism" is the reason Ithaca has not achieved its full economic potential: "you have that prevailing attitude of throwing obstacles to growth in general." These obstacles create an entitlement process that is difficult to navigate even for seasoned Ithaca-based developers and is intimidating for new or out-of-town developers.

The lengthy approval process affects condominium development more sharply than rentals, because in addition to the lengthy and "frustrating" development approval process that comes with any development in the area, there is the "brain damage," as one developer put it, of building condominiums, including the offering plan. These barriers to entry in Ithaca can make the city inhospitable to developers, and the additional strain of the aforementioned legal hurdles and the limited lending availability — which will be discussed later — can make condominium development unattractive to Ithaca developers. According to one developer, "the more complicated you make something, you shrink the market [for development]." In other words, since there are already high hurdles to development in Ithaca, the added difficulties of condominiums create an environment in which few local developers are willing to try something new and attempt condominium development. According to one interviewee, Ithaca's developers "choose the path of least resistance," and opt to build rentals.

The nature of Ithaca's development process can be unwelcoming to outside developers. One interviewee called it a "parochial" mindset in which national or out-of-town developers can be pushed out. One local developer illustrated the point with an anecdote of a national developer's attempts to break into the market. The company, despite its national presence, was not ready for Ithaca's "buzz saw" and failed in its attempts to break into the market. According to the developer, "after two years and $3 million, the group tucked its tail and left." Another interviewee mentioned that out-of-town condominium developers had targeted Ithaca in the past. These groups identified the demand for condominiums in the area and set about trying to deliver units to the market. It did not go exactly as planned, according to the interviewee:

> Developers from other markets say, "Well it's so difficult to get through the zoning and all the requirements to build." They come in and try to build condos. They're not local, they don't know any better. I've had them say, "Well we tried but you can't do anything in Ithaca because there's so many restrictions, you have to jump through so many hoops that we don't even bother coming back."

Several interviewees expressed hope that an outside condominium developer familiar with navigating the condominium development process would target Ithaca and bring condominium units to the market. However, the perceived unfriendliness towards out-of-town developers and the extended entitlement process described by the interviewees seems to call into question whether an outside condominium developer could succeed in Ithaca.

Aside from just the regulatory hurdles, other aspects of Ithaca's market have scared off potential developers. Large-scale national developers have been unwilling to develop in the city because they view Ithaca as "small potatoes," said one interviewee who unsuccessfully tried to encourage a national developer to build in Ithaca. While Ithaca is a strong real estate market, it does not offer the same scale that these developers tend to target in their projects. Thus, a large segment of the national development community does not even consider building in the city.

V. <u>'It's an Unknown to Me': Local Developers' Limited Skill Sets</u>

Since out-of-town developers have largely passed over Ithaca as a development market and since those that have tried to build in the area struggle to find their foothold in the community, local developers have filled the gap and engage in most of the city's real estate development. These developers maintain a strong focus on rental properties — both student housing and general multifamily. While, as discussed earlier, development in Ithaca is associated with its own array of headaches and hurdles, local developers have grown accustomed to the length of the process, and they understand the nuances of the community. Although it is still a difficult undertaking, successful local developers know the required steps to deliver a real estate development in the city. To local developers, condominium development is markedly different than multifamily, and few developers want to venture into the different asset class. These developers "know how to do one thing and they do it over and over and over again," and that one thing is never condominiums, according one government official. "It's two distinct businesses, and for us, it's just not the business we're in," said one developer whose development group has multiple large-scale rental projects in the city. While his company got approached by people who "always ask if there will be condominiums," he viewed condominium development as a completely different "philosophical approach" to residential development. One long-time developer in the city who has deep experience owning, operating, and developing rental properties in Ithaca stated, that condominiums are an "unknown to me." Another interviewee said, in Ithaca, "rental is just what the developers know." According to interviewees, the prevailing sentiment in Ithaca is that rental apartments are superior to other forms of residential development. This attitude stretches far back in time. Predilection for multifamily seems to be entrenched in the real estate community, driven by older, traditional developers who are hesitant about trying something new. "The mindset in Ithaca is to be a landlord, it's just the way it's always been," one developer said. The draw to pivot or expand to condominium development after developing successful multifamily projects does not exist in Ithaca, according to the interviewees. One participant noted that in other cities, developers "graduate" from building rental units and move on to condominium construction. In Ithaca, that mindset does not exist, and developers are not drawn to condominium development like in other markets.

Developers also see little need to try something new. Thanks to the “lucrative” rental market, developing multifamily properties has proved to be a profitable line of work for many developers. One government official categorized the thought process of developers as, “I’m really doing O.K. here just doing rental.” Another government official said, “Why try something new if you can get your return on investment with rental units?” In sum, condominium development represents an unknown quantity that, for many developers, is not worth pursuing. A common sentiment was that minimal condominium development is a self-reinforcing cycle: no one builds condominiums because there is no history of condominium construction. According to one developer, “when you build a rental building in Ithaca, it’s going to do O.K., so there’s no need to think outside the box or expend extra effort.”

Developers I interviewed also expressed a desire to maintain equity in their properties on a long-term basis. The developers said they prefer long-term holds over a quick sale after delivery. They viewed the annuity of a rental property as the most attractive part of a development, in contrast to developers who hope to build and immediately dispose of a property to earn back their capital quickly. Each developer interviewed indicated having an asset to hold on a long-term basis was better for them than an immediate return of capital, as would be the case for condominium development. One developer proposed condominiums to his partner development group, but his suggestion was brushed aside in favor of rentals because, for condominiums, “the return is there, but they like the annuity part of it where the rent comes in and they have a long-term hold.” According to another developer, one reason there are no condominiums in Ithaca is “it’s all about cash flow” and the quick return of capital for condominiums is unattractive to many local developers. Developers cited high land prices and construction costs as a major reason for this preference. With multifamily apartments featuring steadily rising rents and low vacancy — as is the case in Ithaca and Tompkins County — a developer will eventually be able to recoup construction costs. For a condominium development, if the units do not hit their targeted sale price, then the building will be delivered at less than the cost of construction, and the developer will be forced to absorb the loss.

Another one of the reasons for this preference was that, because of limited development opportunities in Ithaca partially stemming from the aforementioned approval process, developers were unsure where they could reinvest their capital after selling the condominium. Several of the developers expressed concern that after selling off the condominiums upon product delivery, they would have no opportunities for another investment and would be forced to sit on the capital from the condominium sales. While in the process of evaluating condominiums, one developer realized even if he got the returns he was looking for, he would not know what to do with the cash from the unit sales. Upon delivery, his company would earn back its capital and pay off the construction loan, "but then what?" he questioned, unsure of what the development group would attempt next. Without other investment opportunities, they would be forced to sit on their capital. A rental project would allow them to continually earn revenue, and not have to worry about finding new development opportunities. One interviewee mentioned that some of Ithaca's development groups are family businesses. This ownership structure creates strong incentives to develop rental units, not for-sale condominiums. The interviewee said, "Some of the developers are family oriented and they've got others coming up and they're in it for the long term, and the rental units make more sense."

One of the developers of a condominium project in the county acknowledged he was in a different situation than other developers may find themselves in. As a retiree now pursuing a second career as a developer, he said that, "If I was just starting out, I wouldn't even think of [developing condominiums], because it's too risky." He said he never considered missing out on a long-term annuity when he began developing the condominiums. He stated seeking major profits was not his main purpose for developing condominiums in Tompkins County:

> I'm at the stage in my life where I've done the things I want to do. Doing this, I have to enjoy the process, enjoy being able to hire people and work with interesting people, and learn stuff myself. If I can do all that and not lose money

> and be proud of something and do something that fulfills a need in the city, it's kind of a way of giving back to the city.

The condominium project was his first foray into ground-up development. While he had owned a portfolio of rental buildings, he had never built one.

VI. 'The Local People Don't Understand It': Obstacles to Financing

Interviewees also pointed to condominium construction financing as another major obstacle to developing for-sale units in Ithaca's downtown. Especially in the years following the financial crisis — which disproportionately affected condominium developments and sales — pre-sale requirements were "onerous," as banks tried to reign in their liberal lending that preceded the crisis, according to one of the interviewees. One developer who nearly built condominiums in downtown Ithaca before switching to rentals just before construction said that financing concerns were the major reason his group backed away from their condominium proposal. He acknowledged part of it was due to unfortunate timing; right as they were about to start building, the housing market burst, drying up construction financing and decreasing interest in condominium purchases among consumers. According to him, banks began enforcing 90 percent presale requirements, a hurdle his group could not overcome. Even though condominiums "were what people wanted," the uncertainty regarding financing made them reconsider and adjust their project accordingly. The group eventually built a rental property in downtown Ithaca. Other interviewees similarly discussed difficulties with financing condominium projects. One developer stated that the reason for a dearth of condominiums in the market boiled down solely to the unwillingness of banks to finance condominiums in upstate New York. He recognized the market for condominiums in Ithaca: "I've certainly been interested in [developing condominiums], but every time I try, it's hard to finance." The scarcity of condominium construction financing pushed him away from making for-sale units and drew him back towards the relative straightforward rental financing process. According to this developer, banks in New York City and its immediate suburbs are comfortable with issuing construction loans for condominium projects because they understand the product and have seen successful developments in the past: “there’s a history,” in these parts of the state. In upstate New York, the banks are “not as sophisticated,” and shy away from lending on things they do not understand. Without that proven history of success evident in New York City, banks are conservative and unwilling to finance condominium construction. Even for banks with branches and headquarters downstate, “it may be the same bank, but the local people don’t understand it,” and consequently will not lend for for-sale apartment development. Multiple interviewees categorized the lending industry in Ithaca as conservative and slow to change. “When you say you want to build something that doesn’t have a known historical market, it can be very difficult,” said one developer. Another interviewee said it is unlikely local banks will try to expand their condominium development lending in the future: “They don’t have that expertise, and frankly they don’t want to get it.” Several of the interviews described the situation in Ithaca as a kind of feedback loop. No developers build condominiums because they cannot get financing because no developers build condominiums. Because of the feedback loop, a Catch-22 forms: “The only way to convince banks is by showing history, and you can’t show the history because banks aren’t convinced enough to lend.”

As it is, financing, even on rental projects, can sometimes be difficult to secure in Ithaca, according to some of the developers with whom I spoke. Add in the difficulties of finding a condominium loan, and few developers are willing to try to pursue the financing needed to develop condominiums. “[Securing financing for a condominium development] was just another fight, and I wasn’t willing to do it — I had fought enough already,” said one interviewee, who had considered condominiums, but eventually opted to develop rental apartments. According to one interviewee, even if one were able to hit the necessary pre-sale requirements, the loan might only cover 50 percent of the cost of construction, considerably less than an 80 or more percent loan available for rental properties. This adjusted capital stack would force the developer to provide more of its own equity, thereby lowering returns. While one developer who bemoaned the lack of condominium financing is planning on including condominiums in a different development, it is important to note the for-sale units will be just a small component of the 900-unit project. This developer plans to use the large numbers of rental units to draw in construction financing. Similarly, another developer is working on a proposal for a large-scale residential development in Ithaca that features more than 100 units, about 14 percent of which will be condominiums. Like the previous developer, this developer hopes the large rental component offsets lenders' doubts surrounding the risks associated with condominiums.

Perhaps telling of this limited financing landscape are the capital stacks of the recent Ithaca condominium developments. Both condominium projects in Ithaca have had unique financing structures. One project was financed mainly by its partners, and did not rely on outside financing. The developers of the building initially tried to track down bank financing, but they were quickly turned off to the process because of mounting difficulties with lenders. The bank, with whom the developers had a prior relationship, did not understand condominiums and "they dragged their feet." The developers had to "jump through hoops" to get their financing, and they eventually decided a loan was not worth the process. They ended up financing the conversion with their own capital. The other development currently has a construction loan but its origination was predicated on high degrees of collateral for the developer's other properties.

Other interviewees were less pointed in their critique of financing availability for condominiums, but most people interviewed mentioned lending as at least a minor reason why development for condominiums has been minimal in Ithaca. That feeling was not unanimous, however. One developer said securing a construction loan would not be an impediment for developing condominiums. This developer, who has built one major multifamily property in Ithaca and is working on a second, had no issues with getting financing for his projects and believed that had the development been condominiums, he still would not have had any problems securing a construction loan. Some of the banks in the region would be "very interested" in financing condominium construction, according to him.

While construction financing was mentioned frequently in the interviews, one interviewee did discuss the difficulty in securing loans for individual mortgages for condominium purchasers. For this interviewee and his company, a mortgage for a condominium, is "definitely not as desirable as a three-bedroom, two-bath single-family home." Because of this preference for detached single-family homes, "there are definitely more hoops to jump through [for condominiums]." Like his counterparts on the construction financing side, as a mortgage lender, he acknowledged that a lack of condominiums makes lending on condominiums a risky endeavor. "If you look at a national cross section, condos are mortgageable. Condos aren't built here, that's why they're not mortgageable here," he said. Similarly, one government official said since there are no comparable condominiums in the area, mortgage lenders would be "worried" whether or not a condominium could hold its value. According to this official, that, in turn, affects the willingness of construction financiers to lend money for development.

VII. 'What About Condominiums?': Officials' Hope for For-Sale Apartments

As discussed earlier, the broader issue of housing has been a popular topic for the city, and condominiums have been no exception. Thanks in part to the aforementioned Danter Study as well as requests from current and prospective area residents, city and county officials in the area have acknowledged the need for condominiums and see the benefits of homeownership in Ithaca's downtown — "it's a much more stable environment and would be more compatible with an established neighborhood," according to one city official. Members of the various government agencies have engaged in a variety of initiatives to spur development for for-sale housing in the city. These initiatives range from suggesting to potential developers condominiums as an option to allowing for an expedited easement approval processes for condominiums. One government official said, "we would work really hard with a developer to make a successful [condominium] project." Several of the developers I spoke with mentioned that during the initial approval process with the city, members of the government suggested building condominiums, not rentals. Yet according to one condominium developer, while Ithaca officials encouraged the development of condominiums and he felt the project was something they wanted, he did not feel as though they made the development process any easier for him. "I've got a bit of a sour taste in my mouth. They loved it but they didn't do anything. I would have liked to see a little more effort on their part."

A few trailblazers might cause a ripple effect in the development community, according to a few people who were interviewed. Some interviewees said that developers may see a successful condominium project and learn from it and then do their own project. Similarly, a new condominium development that satisfies the developer's goals might make banks more comfortable with the concept of condominiums in upstate New York, according to a developer. According to one interviewee, "it would take someone with the vision to do it and to make it happen. I think someone just has to say 'I'm going to do this.' And we haven't had anybody that wants to do that."

List of interviews:

Developers -

Adam Bloomfield (Bloomfield/Schon + Partners)	March 6, 2018
Joseph Bowes (Ithaca Neighborhood Housing Services)	March 6, 2018
Patrick Braga (Visum Development Group)	April 18, 2018
Ed Cope (PPM Homes)	March 16, 2018
Steve Flash (323 Taughannock Blvd proposed development)	March 14, 2018
Nick Lambrou (Lambrou Real Estate)	April 10, 2018
Costa Lambrou (Lambrou Real Estate)	April 10, 2018
Tom Livigne (Former Cornell Real Estate director)	March 13, 2018
Dave Lubin (Chain Works and Harold Square development)	March 22, 2018
Joe Perry (Lehigh Valley House)	March 8, 2018
Jeff Smetana (Newman Development Group)	March 12, 2018
Frost Travis (Travis Hyde)	February 23, 2018
Lynn Truame (Ithaca Neighborhood Housing Services)	March 6, 2018

Government officials -

Nels Bohn (Ithaca Urban Renewal Agency)	March 8, 2018
JoAnn Cornish (City of Ithaca Planning Department)	March 8, 2018
Jackie Dischell (New York Office of the Attorney General)	March 12, 2018
Gary Ferguson (Downtown Ithaca Alliance)	February 15, 2018
Jay Franklin (Tompkins County Department of Assessment)	February 22, 2018
Judy Kaufman (New York Office of the Attorney General)	March 12, 2018
Jennifer Kusznir (City of Ithaca Planning Department)	March 20, 2018

Kate Maynard (Saratoga Springs Planning Department)	February 21, 2018
Megan McDonald (Tompkins County Legislature)	February 9, 2018
Martha Robertson (Tompkins County Legislature)	February 9, 2018
Jennifer Tavares (Tompkins County Chamber of Commerce)	March 1, 2018
Brokers -	
CJ DelVecchio (Warren Real Estate)	February 22, 2018
Norma Jayne (Ithaca Board of Realtors)	April 13, 2018
Mark Mecenas (Warren Real Estate)	April 13, 2018
Richard Patterson (Howard Hanna Real Estate Services)	April 13, 2018
Sally Regoord (Howard Hanna Real Estate Services)	March 5, 2018
Financiers -	
Mike Cannon (Tompkins Trust Company)	February 14, 2018
Brian Kunk-Czaplicki (Elmira Savings Bank)	April 13, 2018
Delia Yarrow (Ithaca Neighborhood Housing Services)	March 6, 2018
Lawyers -	
James Salk (Schlather, Stumbar, Parks, & Salk LLP)	February 27, 2018
Ronald Shubert (Phillips Lytle LLP)	February 13, 2018
Other -	
Bob Abrams (former Baker Program in Real Estate director)	February 21, 2018
Scott Whitham (Whitham Planning and Design)	March 20, 2018