

## Adjusting to the market

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January 21, 2013



Gary Hofstetter knows new residential development isn't an easy task in today's economy, or a sure bet for that matter. But that's not stopping his Boston-based realty firm from moving forward on the second phase of an ambitious \$30 million townhome and condominium development in Niantic.

New Boston Fund is planning to break ground this spring on the second phase of its Seaside Village development, a project that has been in the works for

years and faced its share of challenges. The market rate and affordable housing project was built during a weak economy; it has undergone a change in lead developers and a redesign that reduces its scale and aims to cater to a new customer base.

The second phase of construction will give rise to 65 new housing units including 24 townhomes and 41 condo units. That will be on top of the 17 townhomes and 36 condo units that were built and sold as part of phase I of the development.

And while any new residential construction is significant news in today's still weak housing market, the more interesting component of Seaside Village is where it's finding demand for its product.

Hofstetter, who is New Boston Fund's senior vice president and regional director in the Northeast, said the firm decided to completely redesign the second phase of Seaside Village, particularly the townhomes, to cater to empty nesters, or residents 55 years of age and older, who were showing the most interest in the development.

That demographic, which is growing in the state, is looking for smaller living spaces with a minimal number of stairs, so New Boston Fund decided to redesign its three-story townhomes into two-story buildings with around 1,000 square feet of space that have the master bedroom and living room on the same floor.

About a dozen redesigned townhomes have already been built, with five of them already sold and a half-dozen under contract.

Realty experts say new condo and townhome development can be a challenge in Connecticut because of the state's stagnant population, limited availability of open space and high construction costs, but opportunities do exist, particularly with the empty nester demographics.

"There is a real need for the right condo project in Connecticut," Hofstetter said. Seaside Village was originally slated to be a \$38 million project with 150 townhomes and condos.

The smart growth redevelopment, which is taking shape at the site of a former manufacturing plant, has been scaled back to a \$30 million, 118-unit project to better meet economic conditions, Hofstetter said.

It also has an affordable housing component, with about 30 percent of the condo units slated to be sold at prices that meet affordable housing guidelines. Price ranges for the affordable units are between \$165,000 and \$225,000, Hofstetter said.

The market rate condos are being sold at an average price of \$250,000, while the townhomes have been sold at a price range of \$325,000 to \$400,000, Hofstetter said. New Boston Fund was originally just a silent equity partner in the project, but the firm bought out the original developer — Stamford-based Vespera — in 2009 to take over full control.

Hofstetter said the original development group didn't perform well, hiring too many out-of-state companies to work on the project. New Boston Fund shifted gears, hiring Connecticut-based contractors and redesigning the second phase of the project to better meet market demand.

The town of East Lyme, where Niantic is located along the shoreline and Dodge Pond, also contributed to the project, putting up funds for road improvements and landscaping, making the site more appealing.

The first phase of the project featured three-story townhomes with the living room and master bedroom on separate floors. That didn't match the desires of empty nesters, particularly snowbirds looking for a second home in Connecticut.

Although all 17 of those townhomes were sold, New Boston Fund had to rethink the project's next phase.

"That demographic wanted a first-floor master bedroom so we decided to redesign the townhomes for the second phase," Hofstetter said.

The condos, which are as large as 1,300 square feet, have two bedrooms and some include a den or balcony.

Terence Beaty, the director of Prudential Connecticut Realty Specialty Services in Wallingford, said much of the demand for condos is coming from empty nesters and there has been a psychological shift among that demographic in terms of the type of product they want. That includes flatter living spaces and an enclosed garage to protect vehicles from the weather.

"Condos have to take on a different product look and feel if they are going to survive going forward," Beaty said. "The people that can afford condos are the ones who want flat-style housing."

Condo sales and development in Connecticut have slumped in recent years along with the broader residential real estate market. There is also a fair amount of un-built inventory from projects pitched during or just prior to the recession that couldn't find the legs to get off the ground, realty experts said.

Hartford County condo sales fell to a low of 1,426 in 2011, compared to 1,700 sales in 2010, according to Ed Sutton, a broker for Re/Max in East Hartford.

New condo construction in Hartford County was nearly nonexistent, with only 139 units coming on board in 2012. There were 154 new condos built in 2011 and 189 built in 2010, Sutton said.

Condo sales activity picked up a bit last year, increasing to 1,627 units sold, but that demand was largely a result of declining home prices. The average Hartford County condo sales price in 2012 was \$177,800, Sutton said, \$10,000 less than the 2010 average price of \$188,000.

"The market is recovering because prices are down, which is helping drive demand," Sutton said.

The condo market faces other challenges as well including access to financing, said Beaty, the Prudential director.

New rules from Fannie Mae and Freddie Mac have made it harder for condo buyers to obtain a mortgage, especially in attached developments. Risk averse banks haven't helped either. "There are a lot of deals on paper that can't find financing," Beaty said.

Despite the challenging environment, Hofstetter said he is pleased with the way Seaside Village is moving forward lately, which is why New Boston Fund plans to break ground on the 41 new condo units and additional townhomes this spring. "I think we have recovered to a point where we are comfortable moving forward," Hofstetter said.