THE REAL DEAL
NEW YORK REAL ESTATE NEWS

A new Brooklyn land grab

Brooklyn land sales heat up December 01, 2011 07:00AM ***By Tracey Samuelson***

New York City is known for its sky-high rents. But lately, tales of Brooklyn's hot rental market have become as numerous as the 20-somethings flooding into the borough.

Two Trees recently finished leasing up its 103-unit rental at 25 Washington Street in Dumbo, where all 80 of the market-rate units were rented in four months at prices of roughly $50 per square foot, according to company vice president Jed Walentas. At JMH Development's 184 Kent Avenue, a Williamsburg warehouse converted into a 340-unit rental building, leasing was completed within 10 months, according to Jason Halpern, managing partner at JMH. Now, with some of those leases starting to turn over, interest in the building is stronger than ever -- so strong that the rental office inked eight new leases and fielded 25 walk-in inquiries during one week last month, Halpern said.

Such success stories are helping to drive up land prices in the borough. While developers had an insatiable appetite for condos during the boom and mostly halted construction during the recession, they are now eager to add rental projects to their plates. As a result, land prices -- traditionally driven by the condo market -- are being buoyed from their recession lows by developers looking to build ground-up rentals.

Sales of development sites overall in Brooklyn are up from last year -- in both volume and transaction price. There have been 85 sites purchased for development thus far in 2011 -- a 74 percent increase over this time last year, according to data from Massey Knakal Realty Services. Average price per buildable square foot has risen to $115, up 14 percent from $101 in 2010.

"We started seeing, about a year ago, a lot of local and institutional players coming back into ground-up development," said Ofer Cohen, president of Brooklyn-based TerraCRG, a commercial brokerage firm. And unlike the mid-2000s, he said, the economics are such that "people can now build rental projects."

Determining precisely how much land prices have recovered isn't an exact science.

Michael Amirkhanian, a director of sales for Massey Knakal, estimated that land in key areas such as northern Brooklyn and Downtown Brooklyn has increased as much 25 percent from its recession lows. (Massey Knakal tracks development deals, but doesn't separate land sales from sales of vacant buildings.)

Amirkhanian pointed to a ground-up development at 505 St. Marks Avenue in Crown Heights, currently a school that the buyer will replace with a 128-unit rental building. The property sold in October for $4.5 million, or $48 per buildable square foot, he said -- a 25 percent increase over initial offers when the property was first marketed in 2010.

Michael Falsetta, executive vice president of the Manhattan real estate advisory firm Miller Cicero, estimated that land in Brooklyn has recovered all but 15 to 20 percent of its prerecession values, "maybe even 10 percent in hot areas."

Cohen's experience seems to back that up. He said he's currently marketing a development site with 22,000 buildable square feet on Bergen Street in Prospect Heights, near the corner of trendy Vanderbilt Avenue. In September, 17 bidders submitted written offers for the property, he said, and the parcel is currently in contract. Cohen declined to disclose the price, but he said it represents a strong premium over the sale of a comparable building -- just a block away -- which sold for $86 per buildable square foot last year.

Falsetta, meanwhile, said he knows of at least 12 land deals in Williamsburg alone in the last year.

It's getting hot in here

According to recent data from the U.S. Census, 69 percent of New York City households are renters -- the highest of any metro area in the country. But because New York City condos go for much higher prices than rentals -- in the third quarter, the median sales price in Brooklyn was $510,000 -- developers have historically preferred them to rentals, especially during the mid-2000s real estate boom.

But today's shaky economic climate, combined with strong demand for Brooklyn rentals, has caused them to see things differently, brokers said.

For one, developers feel confident they'll be able to lease out new buildings in a matter of months, as opposed to the years it can take to sell out a condo project.

"Condos produce a higher gross return, but it takes longer," said Falsetta. In this market, he added, "any decent-sized rental project can expect to absorb at least 20 units per month."

Additionally, some Brooklyn rental buildings are now commanding rents high enough to make the profit margin on them more appealing than in the past. The brokerage MNS estimated that the average one-bedroom apartment in Brooklyn rented for $2,299 in October, up from $2,073 in the same month of last year.

At 184 Kent, apartments rent for just over $50 per square foot per year, according to Halpern. In Downtown Brooklyn, the Addison at 225 Schermerhorn Street goes for $51 per square foot, brokers said, while the Brooklyner at 111 Lawrence Street in Downtown Brooklyn is commanding about $56.

"When you're getting the $50s, then, yes, [developers] can do rentals," said Alan Miller, a senior director and principal at Eastern Consolidated, though he noted that many developers still prefer condos.

Bigger increases ahead?

The strong rental market is also popular with another key player -- banks.

"Primarily, the development today is going to be rental, because there's going to be financing for rentals," said David Eyzenberg, managing director and head of commercial real estate at NewOak Capital. He's seen an increasing number of requests for financing on deals along the Fourth Avenue corridor in Brooklyn at prices around $75 per buildable square foot -- "lower than it used to be, but above two years ago," he said.

Banks are still cautious in their lending and condo developments still carry the perception of risk, he said. Still, he expects that banks will eventually green-light condos and that will lead to an even bigger increase in land prices.

"When you're going to see a real pop in [land] value is when you're going to see condo developments." said Eyzenberg. "Condo guys can pay more for the land. Right now, today, everyone is still pricing out land as if it's going to be rental."

Still, JMH's Halpern cautioned that prices in Brooklyn -- especially in Williamsburg -- may already be too high. Some developers are currently "underestimating their construction costs and overestimating what their rents will be," he said. Halpern said while he'd like to continue building in Williamsburg and is "a big believer" in the area, he's already moved on to other areas. Land in Williamsburg, he said, is "overheated."