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## **Discounted Brooklyn brownstones coming to market, but not in prime neighborhoods**

By Candace Taylor

A slew of discounted Brooklyn brownstones is coming on the market.

A bevy of three- to four-unit residential buildings in Bedford-Stuyvesant can be had for under \$300,000, for example, according to Ofer Cohen (see full report below), the managing director at TerraCRG Commercial Realty Group.

"I've got a list of 10 of them right now," he said.

But investors looking for a steal in prime neighborhoods like Carroll Gardens or Park Slope may need to wait a little longer.

According to a report released today by TerraCRG, 51 percent of non-residential mortgages that began foreclosure filings in the past year in Brooklyn were for three- to four-unit residential buildings, and 80 percent were for mortgages under \$1 million.

Cohen added that the majority of the foreclosures took place in lower-priced neighborhoods like Bed-Stuy and East New York.

"The weaker neighborhoods are seeing more of this," said Cohen, who recently sold a non-performing mortgage note on an eight-family building in Crown Heights for \$400,000, a 50 percent discount.

According to the report, 21 percent of foreclosures were in walk-up apartment buildings, 14 percent were mixed-use, and less than 5 percent each were in vacant land, office, retail and elevator apartment buildings.

The report found that just over 1,000 commercial properties began foreclosure proceedings in Brooklyn between September 2008 and September 2009. There were 70 such proceedings in Brooklyn in September, the report found, up from 25 in September of 2008.

While other reports track the number of foreclosure auctions scheduled, TerraCRG's report tracked property owners who were served with a *lis pendens* for non-payment, which happens at the beginning of the foreclosure process. Because the commercial foreclosure process can take two or three years, the report gives a forward-looking picture of the market.

Cohen said the report indicates there will be distressed sales activity occurring in Brooklyn for at least the next 18 to 20 months.

Or, as Massey Knakal Realty Services Chairman Robert Knakal put it, "foreclosures are likely to be part of our marketplace well into 2011 and 2012."

This flurry of distress among owners of small residential buildings is largely the result of amateur landlords getting into the real estate game during the boom, said Kenneth Krasnow, the managing director of Massey Knakal's Brooklyn office. During the easy-financing days of the mid-2000s, many small-time investors purchased three- and four-family apartment buildings -- often at inflated prices with little money down -- with hopes of flipping them or converting them to condos, Krasnow said.

"Because financing was so plentiful, they were available to basically anybody," he said.

This was mostly likely to occur in neighborhoods like East New York, Bushwick, Bed-Stuy and parts of Crown Heights, where a three- or four-family home could be purchased for under \$1 million, he said.

"They were just small investor types who saw a nice little building and thought, 'I don't have to put down my life savings, I can convert it to a condo,'" Krasnow said. "They were manageable-sized investments."

That was less often the case in more well-established Brooklyn neighborhoods, such as Carroll Gardens and Park Slope, where homes were more expensive and purchasing an apartment building required a well-capitalized buyer.

"The prime markets didn't get hit as much," Cohen said.

These owners ran into trouble when the real estate market cratered, and they couldn't sell condos for the prices they imagined, especially in emerging neighborhoods.

"Once the economy stopped spinning, those were the neighborhoods that stopped transforming," Krasnow said of areas like Bed Stuy and Crown Heights.

Landlords who planned to lease the units found that they couldn't get the rents they'd planned, Cohen said.

"If you have a six-unit building and suddenly two people lose their jobs, you have two vacancies and you can't make up the mortgage payments," he said, adding that even if a landlord finds new tenants, market rents have fallen sharply.

"Small landlords may have a little less of a reserve," he said.