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Developmental delays

Declining apartment market puts brakes on B'klyn building; fundamental strength

BY JULIE SATOW

IN THE WAKE of massive rezoning in Brooklyn over the past several years, developers rushed to stake claims in the borough. Now they've hit a speed bump.

Real estate values are not living up to expectations: Apartments are failing to sell as quickly as developers and brokers had anticipated, fewer builders are making bids on vacant sites, and land prices are dropping.

"There has clearly been a pullback in the market since the height of the boom in the third quarter of last year," says Brian Leary, a managing partner at brokerage firm Massey Knakal Realty Services. "The local mom-and-pop developers are not as aggressive, and the institutional investors are only looking for large projects."

The average sales price for an

apartment in Brooklyn dropped to \$514,000 in the first quarter, down 7% compared with the same period last year, according to residential real estate firm The Corcoran Group. The more precipitous decline was in the price of condominiums, which plunged 17% to an average \$527,000.

Areas with the heaviest influx of

'There has been a pullback since the 3rd quarter of last year'

condominium development, such as Williamsburg and Dumbo, have been hit the hardest. Prices at 55 Berry St. in Williamsburg were slashed earlier this month by \$128 a square foot, to \$658 a square foot. In Dumbo, developer Leviev Boymelgreen dropped the asking prices for most of the units at 85 Adams St. by 30%.

"We have been very successful when we have reduced prices," says Sara Mirski, development director for Leviev Boymelgreen. "It encourages buyers who are sitting on the fence."

The average sales price for the Adams Street building is \$755 a square foot, she says.

Since buyers are already reluctant to pay top dollar, some industry players are getting skittish.

"Developers are beginning to wonder if there will be as big a demand two years down the road for all the luxury condominiums," says David Junik, a senior director at Greiner-Maltz Real Estate.

As a result, the jostling among developers for the right to build on certain sites has lessened in intensity, and land acquisition prices have dropped.

Mr. Junik is marketing a property located near McCarren Park in Greenpoint for \$200 per buildable square foot, which is generating few nibbles.

"Six or seven months ago, the price would have been \$225 a square foot, and we would have had four or five developers bidding



AP/WIDE WORLD PHOTOS

THE LONG VIEW: Brooklyn's population is growing faster than NYC's. Developers have noticed.

Delayed development

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for it," Mr. Junik says.

Meanwhile, banks are starting to balk at financing new developments.

"One lender told me today, in fact, that in neighborhoods like Williamsburg, he is starting to pull back because there is too much product coming on line," says Stuart Bruck, director of mortgage brokerage at Time Equities Inc.

Lenders are especially cautious about funding inexperienced developers, and some builders seeking financing are being forced to put as much as 35% of their own equity into the deals, Mr. Bruck says.

Even though the level of demand is disappointing developers, the long-term outlook for Brooklyn redevelopment remains strong. The borough's population continues to grow. The Census Bureau estimates that 2.49 million people were living in Brooklyn last year—an 8% increase over 1990 levels, versus 7% population growth for New York City as a whole.

Population's promise

DEVELOPERS ARE BETTING that the population increase will work in their favor. From January through April, the city issued building permits for 3,201 new apartments, compared with only 2,932 during the same period last year, according to the U.S. Census Bureau. In Manhattan, permits were issued for 1,759 new units in the first four months of 2006.

Many of these apartments are being built in areas that are not yet saturated with supply. Along Fourth Avenue on the outskirts of Park Slope, 12 developments are planned

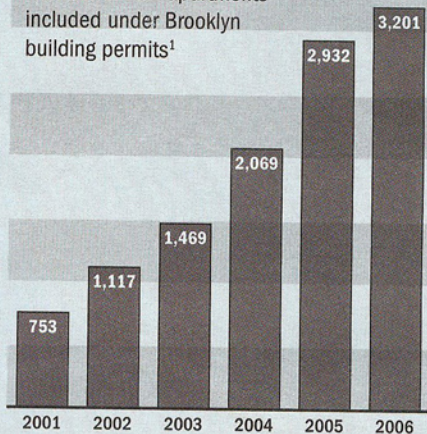
that could create at least 500 additional apartments.

"Even if the economy turns down and the housing market declines, the prestige of Park Slope will draw people to the area," says Ken Freeman, director of sales at Massey Knakal.

The Department of City Planning is planning to rezone other neighborhoods in the borough to spur development. It has begun pre-

HOPE SPRINGS ETERNAL

Number of new apartments included under Brooklyn building permits¹



1-January through April of each year.

Source: U.S. Census Bureau

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liminary discussions with community groups in Bedford-Stuyvesant and Fort Greene to allow residential development on Fulton Street, while downzoning the rest of those neighborhoods to protect low-scale housing. Contextual rezoning like this helped jump-start the building boom in other areas, including Williamsburg and Dumbo.

"The infrastructure in Brooklyn is as good as it gets," says Massey Knakal's Mr. Leary. "We may have reached a high point in pricing, but the borough is still an extremely stable marketplace."

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