

With Manhattan Nearing Build-Out, Developers Eye S.I., Brooklyn

By Jacqueline Havenka



Given the new projects coming to the Staten Island waterfront, developers are beginning to look to the borough for new economic opportunity.

NEW YORK CITY—A mass exodus of *Escape From New York*-style proportions may soon be coming to life -- for investors, that is. As the amount of buildable square footage in Manhattan continues to slim down, developers are jumping ship for opportunities in the city's outer-boroughs -- particularly in emerging neighborhoods like the St. George waterfront on Staten Island and Downtown Brooklyn -- where land is more plentiful and opportunity for yield is greater, officials from Massey Knakal Realty Services explained during the firm's third quarter press briefing on Tuesday.

According to research from Property Shark cited by MK, Manhattan has approximately 4% of unimproved land for its total length of 23 square miles, compared to Staten Island, which has 18% of available land across 58 square miles; Queens with 8% and 109 square miles; and Brooklyn at 7% and 71 square miles.

James P. Nelson, a partner at Massey Knakal representing sales in Greenwich Village, NoHo and the East Village, said that number does not match up with the demand for new multifamily product. "Soon what you are going to find that there is hardly any land left in New York City," he said, at the conference. "When you think about it, there has been so much development over this last cycle, and it was all needed. What saved us in the last cycle was that it was not speculative development. Everything that was built in '06 and '07 was absorbed, and the projects being built now can't keep up with the demand. We are getting to a point where there is nothing left to build in Manhattan."

As a result, Nelson said developers who were previously building in just Manhattan are now looking to the outer boroughs. "A lot of Manhattan developers are building in Brooklyn for the first time," he said. "The other thing we are seeing is that developers that are still focused in Manhattan are looking for sites that are commercially zoned and looking to get them residentially rezoned. Clearly, there is some risk on that, but opportunity is that they could buy the land at a lower basis and if they are successful at getting the land rezoned, there could be a huge windfall."

Currently, Massey Knakal has 153 development sites for sale. Of those 153, only five of those listings are above 50,000 square feet, which Nelson described as a "real shortage of land." When looking at the demand for units citing Corcoran Sunshine data, he explained close to 2,000 condo units were absorbed in Manhattan in the last year, and only 1,700 units will be added over the next three years.

"So again, what we've absorbed in the last year, we are not replicating for the next three years," he added. "It'll be good news for land prices and what condos are selling for, but it is going to be a challenge to keep up the velocity."

Now, much of the development opportunities are creating a ripple effect outside of Manhattan. The brokerage is currently marketing 77 acres on Staten Island, and has seen increased activity in Brooklyn.

Stephen Palmese, director of sales for Downtown Brooklyn, Boerum Hill, Brooklyn Heights, Clinton Hill, DUMBO, Fort Greene and Prospect Heights, said during the first three quarters of 2012, the Brooklyn property sales market saw 691 transactions consisting of 859 buildings change hands, a 53% increase over the same period in 2011. For development sites alone, dollar volume year-to-date was \$379 million and 157 sites, an increase of 35% and 47% from the same time last year, respectively.

Notably, Palmese recently handled the sales of 61 Park Place at \$309 a buildable foot, 295 Hicks Street at \$400 a buildable foot and the Smith Street Townhouse at \$300 a buildable foot. At present, the company has been hired to sell several large development sites, including 300 Livingston St., a 600,000 buildable square-foot site, and a development parcel that is in contract right now at 300,000 square feet at \$140 a foot.

Overall, Palmese said the development trend is moving toward townhouses and other low-rise alternatives to traditional apartment towers. "As Brooklyn continues to map historic districts in large swaths of land, which is available in Brooklyn similar to Manhattan, you are seeing large swaths of land with low-density development and it doesn't necessarily need to be high-rise," he said. "There are alternative measures to build townhomes or a different configuration, which is yielding toward higher prices per buildable foot."

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