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# Brooklyn Fire

The borough's cultural renaissance may have begun a decade ago, but in 2013, values and demand are finally catching up.

The Brooklyn commercial real estate market is on fire.

Demand for properties in the borough is at an all-time high, and many neighborhoods in Brooklyn are rivaling some Manhattan neighborhoods in terms of value and desirability. Today, many young people moving to New York City are choosing Brooklyn over Manhattan, and their motivation is not simply based on affordability. For teenagers and those in their 20s who live in Manhattan, partying in their own borough is passé. They want to go to Brooklyn, which is now widely considered the hipper of the two boroughs.

Yes, once home to "Dem Bums" (a term of endearment for the Brooklyn Dodgers, for those of you too young to remember) and Tony Manero (John Travolta's character in the 1977 classic *Saturday Night Fever*), Brooklyn is now a hotbed of cultural, social, sports and entertainment activity. Caught up in the groundswell of positive traction, the borough is enjoying its commercial real estate market.

In 2012, there was \$4.4 billion of investment sales activity in Brooklyn, the highest



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total in the history of the borough. Granted, this total was given a boost by the \$751 million sale of the Kings Plaza Mall by Vornado (the largest single sale in New York City last year), but even without this very large trade, the activity was still tremendous. The dollar volume of sales in the fourth quarter alone was \$2.15 billion, beating the all-time record by almost \$1 billion. The stellar appreciation of property values in the borough is the major reason for the large increase in the dollar volume of sales. Last year's \$4.4 billion sales total was up a whopping 160 percent from 2011's \$1.7 billion. This was about 6.5 times the \$691 million of volume recorded in all of 2009 and was even more than the \$3.84 billion in 2007, the last cyclical peak. The number of properties sold, however, did not keep pace with the increase in dollar volume. This illustrates the story of

the Brooklyn market more profoundly than anything else. Consider that the 1,273 properties sold in Brooklyn last year was nearly 35 percent lower than 2007's total of 1,916, highlighting the fact that prices are increasing. In 2007, the average sale price of an investment property was just over \$2 million. Last year, the average climbed to \$3.45 million.

Another reason for this increase in the average sale price is that new development has taken Brooklyn by storm. New buildings are popping up left and right. Many of the condo projects that began to come out of the ground during the last cycle but were stalled have been recycled as rental buildings, and many of those are being sold. This new product has been greatly impacting average sale prices, particularly in the elevated apartment building sector, which recorded a 32 percent increase last year over 2011's average. Given the strength of the market, the dust will be blown off the offering plans for many of these assets, which are likely to be converted to condominium ownership as was originally intended.

The pace of demand for both rentals and condos has had a demonstrable impact on the land market. In 2012, there were 235 development sites sold in Brooklyn, up 67 percent from 2011. There was \$777 million spent on land last year, representing an enormous 177 percent increase over the \$385 million of land sales in 2011. Evident in these numbers (comparing the 65 percent increase in the number of sites sold with the 177 percent increase in the dollar volume) we see that the sites that are selling are larger, and they are selling for increasing prices.

This activity bodes very well for the future of the borough, as many very smart folks are placing very big bets on what the market will look like two or three years from now, when the product which rises from these parcels of land will be delivered to the market.

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