

PROPERTIES

The Real NYC Housing Boom Isn't in Manhattan

by Oshrat Carmiel

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For AvalonBay Communities Inc., the next promising area for New York development is in southeast Brooklyn, at the second-to-last stop on the B train and off a bustling strip of discount stores and fruit stands.

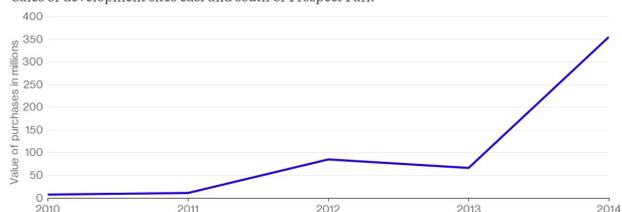
There, in Sheepshead Bay, the second-biggest publicly traded U.S. apartment landlord is planning 200 luxury rentals in the tallest tower the community has seen in decades. The project, about a 45-minute subway ride from midtown Manhattan, is also the most remote within the city for the company.

For all the attention Manhattan's ultra-luxury condominium towers have captured -- with their sky-piercing heights and record-shattering prices -- New York City's largest residential construction boom is in the farther reaches of the outer boroughs. Builders of rental and for-sale housing are being drawn to Brooklyn and Queens neighborhoods where land is more plentiful and expenses are lower than across the East River. They're betting on high demand for their projects as the costs of living in and close to Manhattan continue to climb.

“There's a lot of opportunity for developers to serve New Yorkers who are not billion-dollar bankers,” said David Maundrell, president of Brooklyn brokerage AptsandLofts.com, who consulted on the Sheepshead Bay project with AvalonBay's local partner, Muss Development. “To be able to build a luxury tower near the Atlantic Ocean in New York City is an extremely unique opportunity. It's probably the wave of something bigger.”

Outer Brooklyn land deals surge

Sales of development sites east and south of Prospect Park



Source: Real Capital Analytics Inc.

Bloomberg

There are 37,243 residential units planned for outer sections of Brooklyn, beyond the borough's popular northwest riverfront communities such as Williamsburg and Dumbo, according to data from Nancy Packes

Inc., a marketing consultancy for New York developers. An additional 17,352 units are slated for the farther reaches of Queens, defined by the firm as everything outside [Long Island City](#) and Astoria. Combined, they surpass the 44,427 homes that Packes estimates are planned or under construction in Manhattan.

Coney Island

Some upcoming projects are by developers with roots in Brooklyn and Queens, including Rubin Schron, who became a billionaire as an apartment landlord in the outer boroughs. His firm, Cammeby's International, [plans](#) 544 residential units in Coney Island a 430-foot (131-meter) tower that would be the [tallest](#) in south Brooklyn, according to filings with the city's Department of Buildings.

Others are making their first residential forays into the outer boroughs. Vornado Realty Trust, owner of more than 20 million square feet (1.86 million square meters) of Manhattan offices, completed 312 apartments above a shopping mall it partially owns in Rego Park, Queens. Leasing will begin this month, the company said on a February conference call.

"We're going to be building more apartments in that area," said Chairman and Chief Executive Officer Steven Roth, whose company also is developing an ultra-luxury condo skyscraper overlooking Manhattan's Central Park.

Chinese Buyers

Further north, in Flushing, demand from Chinese buyers is spurring a housing boom near the Roosevelt Avenue shopping hub, where the 7 train from Midtown reaches its last stop.

Onex Corp., Canada's largest private equity firm, plans 795 condos across three towers in a project called [Grand at Sky View Parc](#). Sales have started at the first building, where current listings range from a \$513,888 studio to a two-bedroom for \$971,888, according to StreetEasy.com.

Half of the not-yet-built apartments went into contract within six hours on a single day in January, said Michael Dana, the New York-based president of Onex Real Estate Partners. Ninety-five percent of the buyers are Chinese, he said.

"There's a lot of demand by international investors, and I think Flushing is the epicenter of the growth," said Dana, whose firm built three previous condo towers at the site in partnership with Muss. "We're very bullish on the market."

The Grand at Sky View Parc will be more luxurious than the earlier buildings, with amenities such as a rooftop garden, a putting green and tennis courts, Dana said.

Manhattan Investors

Manhattan-centric investors seeking their first deal in the outer boroughs are among bidders on the leasehold to a 277,000-square-foot Flushing site where a Macy's now operates, said Robert Freedman,

chairman of the tri-state division of Colliers International. Some investors actively negotiating for the site see potential for residential development and upscale retail, even it means waiting several years until the department store's lease expires.

“There's a perception among major players that the opportunities reside in the outer boroughs,” said Freedman, who is marketing the site with Steve Chasanoff. “Everything on the island of Manhattan is so dear.”

For the choicest commercial properties in Manhattan's most desirable locations, the average capitalization rate -- a measure of investment yield that falls as prices rise -- dropped to a record 3.2 percent in the first quarter, according to research firm Real Capital Analytics Inc.

“Where you are in this cycle, you have two options,” Freedman said. “You can keep chasing compressed cap rates in Manhattan and, at a certain point, it gets silly. Or you can try to create value elsewhere.”

Land Deals

Sales of development sites in outer Queens jumped 54 percent last year, to 20 deals, while the total value of those transactions climbed 14 percent to \$150.1 million, according to Real Capital. The data exclude Long Island City and Astoria.

In Brooklyn, the dollar volume of lot sales east and south of Prospect Park jumped more than five-fold, to \$355.2 million. Buyers paid an average of \$290 a square foot, compared with \$652 a square foot in northwest Brooklyn, closer to Manhattan, Real Capital data show.

“Buying land well is the surest way to have a profitable development,” said Nancy Packes, the development consultant. “And spotting areas early means buying land well.”

AvalonBay and Muss bought their Sheepshead Bay lot, at 1501 Voorhies Ave., for \$16.2 million last year, land records show. The partners plan 200 rentals and 50 condos on the site, 21 stops on the B train from Rockefeller Center in midtown Manhattan. AvalonBay will manage construction, set to begin by the end of June.

Plans also call for a parking garage with a swimming pool and dog run on top, said Theresa Scavo, chairwoman of Brooklyn Community Board 15, citing a meeting with developers last year. One-bedroom condos would sell for about \$700,000, Scavo said. AvalonBay, based in Arlington, Virginia, declined to comment on the project.

Luxury Void

The developments in Sheepshead Bay and nearby Coney Island aren't an extension of gentrification in such neighborhoods as Crown Heights and Bedford-Stuyvesant, which have seen an influx of young residents priced out of Manhattan and closer-in Brooklyn, Maundrell said.

“We’re not looking at hipsters from Williamsburg moving to Coney Island -- that’s not the game plan,” he said.

Rather, the developments would fill a void for luxury housing in an area that doesn’t get much of it, and cater to people who work locally in Brooklyn or commute by car to Long Island or Staten Island, according to Maundrell.

“Avalon is a little bit more pioneering, but other institutional investors need to see what happens here,” he said.