

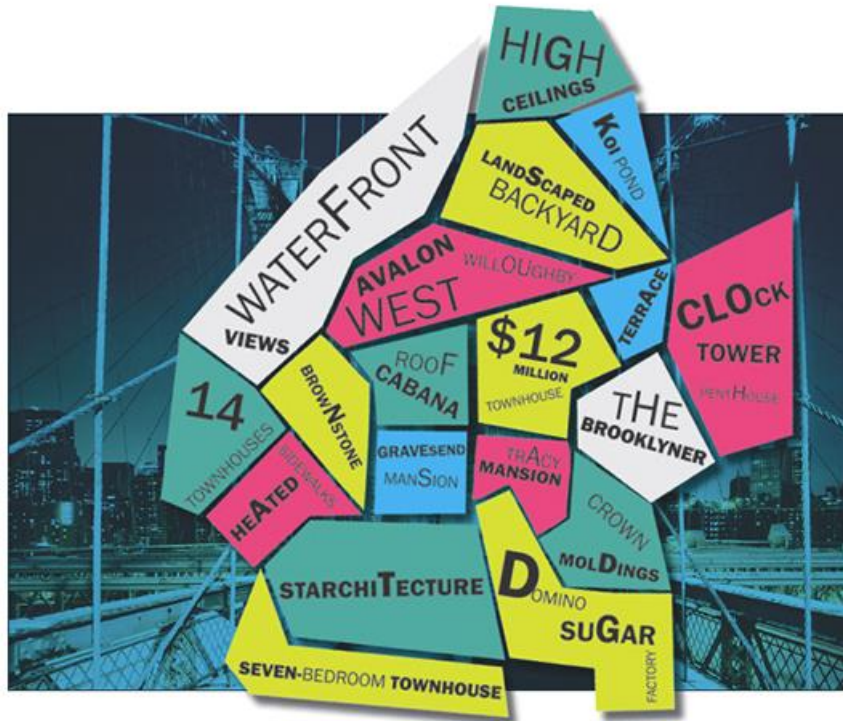
THE REAL DEAL

NEW YORK CITY REAL ESTATE NEWS

November 2013

Brooklyn's Heights

As demand rises, the borough sets new records for everything from townhouses to office space



It's no secret that Brooklyn has changed dramatically in recent years, with hot new restaurants and an NBA basketball team to boot. These changes have brought significant price increases for real estate, especially now that housing demand is surging in the wake of the real estate downturn.

Indeed, as neighborhoods like Brooklyn Heights, Williamsburg and Dumbo lure more Manhattanites across the river, Kings County has set a number of new real estate records. This year in particular, the ongoing inventory shortage has pushed Brooklyn prices to new highs, brokers said.

"Since last January, [Brooklyn] prices have certainly escalated because of the lack of product," said Rhea Cohen, a broker in the Brooklyn Heights office of Brown Harris Stevens. "Most co-ops and condos have been having multiple offers, and are going for higher than their asking prices."

Of course, even Brooklyn's record-high prices still represent a significant discount to Manhattan.

And there are key differences between real estate in the two boroughs. In Manhattan, it is the homes near Central Park that command the highest prices, while in Brooklyn, waterfront homes fetch the greatest premium. In addition, the most expensive properties in Manhattan are condos — with some now asking more than \$100 million — but historic townhouses are Brooklyn's priciest housing type.

"The demand for these [Brooklyn townhouse] properties is voracious," said Doug Bowen, a CORE broker who has worked in Brooklyn for nearly 15 years.

Along with some enclaves in Southern Brooklyn, the Brooklyn neighborhoods closest to Manhattan, like Dumbo and Brooklyn Heights, have historically seen the highest home prices. But as the borough's popularity grows, emerging neighborhoods like Bedford-Stuyvesant and Clinton Hill are seeing new highs.

"Brooklyn is going through something really interesting," said Joseph Cohen of Manhattan-based developer East River Properties. "It has incredible demand coming from Manhattan [and] from the suburbs, but basically no supply to speak of, and very little coming on the market. There really is very limited availability."

This month, *The Real Deal* took a close-up look at the Brooklyn records that have recently been broken.

Most expensive townhouse

Brooklyn record: \$12.5 million

Manhattan record: \$53 million

Brooklyn's highest-priced sales are generally townhouses, spurred by brownstone-loving buyers looking for original crown moldings and more space than they can afford in Manhattan. And with inventory so scarce these days, brokers said prices are climbing faster than usual in prime brownstone neighborhoods like Brooklyn Heights and Park Slope.

"The townhouse market is in an uncanny place right now," Bowen said. "The velocity of price increases — it's better than I've seen in my 15 years in real estate."

Last January, for example, a seven-bedroom townhouse at 212 Columbia Heights in Brooklyn Heights sold for \$11 million, setting a new record for the borough's priciest home sale. The previous record was the 2009 sale of 2111 East Second Street in Gravesend for \$10.26 million.

But only a few months after the Brooklyn Heights sale, the record was shattered again by a townhouse around the corner, at 70 Willow Street. The house, where Truman Capote wrote "Breakfast at Tiffany's," traded for \$12.5 million in March 2012.

There are already a number of listings that could break that new record. The Tracy Mansion at 105 Eighth Avenue in Park Slope is on the market for \$15 million. The 50-foot-wide former school is being listed by Halstead Property's Marc Wisotsky and Jackie Lew. Still, it initially hit the market a year ago priced at \$25 million, and has seen two price chops since then.

Also in Park Slope, a seven-bedroom townhouse at 45 Montgomery Place hit the market for \$14 million in late September with Douglas Elliman super-broker Raphael De Niro. That's more than double the \$6.05 million sale price the house last traded for in 2006, according to the real estate listings website StreetEasy. Late last month, a six-bedroom townhouse at 177 Pacific Street in Cobble Hill was listed for \$16 million, while a gated Mill Basin compound with two houses in it hit the market for \$30 million.

And down the block from the Capote house, a six-bedroom home at 104 Willow Street hit the market for \$12 million in late August. Halstead's Cohen, the listing agent, said the property has been shown a few times, but has no offers yet. But she's hoping that a recent renovation of the historic home will push it into record-breaking territory.

"It was built in 1826 and it still looks like it's 1826," she said, "but everything is fresh and new — the piping, the beams."

Another of the borough's priciest listings, 2134 Ocean Parkway, hit the market in May 2012 for \$14 million. The 10,000-square-foot Gravesend mansion was just price-chopped, however, to \$8.9 million.

These prices may be new territory for Brooklyn, but they're still far below the Manhattan record for the priciest townhouse: The Harkness Mansion at 4 East 75th Street sold for \$53 million in 2006.

Most expensive condo

Brooklyn record: \$7.8 million

Manhattan record: \$88 million

When it comes to condos, the Dumbo waterfront has recently been a hotbed of record-setting prices. Buyers are willing to pay a premium for Dumbo's waterfront views and close proximity to Manhattan, said Halstead broker Charles Homet, who often works in the neighborhood.

In Dumbo, "nearly every sale we're doing is breaking records," Homet said. "We're all astonished at how the prices keep moving up. We're still cheaper than Manhattan, but it's startling to see things trading at \$1,500, \$1,600 per square foot, when two years ago it was \$800, \$900 per square foot."

Dumbo grabbed headlines in 2010, when a 14th-floor, 3,208-square-foot penthouse at new development condo 1 Main Street sold for \$7.8 million, or \$2,431 per square foot, becoming the highest-priced Brooklyn apartment ever sold.

And right upstairs, 1 Main Street's famed Clock Tower penthouse is now listed for \$18 million, making it the highest-priced condo on the market in Brooklyn.

Visible from the Manhattan Bridge, the three-bedroom triplex penthouse has massive circular windows, floating staircases and an elevator. The 7,000-square-foot apartment is nearly double the size of its record-breaking downstairs neighbor — and that doesn't even take into account the roof cabana and deck.

The unit has, however, undergone significant price chops since it was originally listed for \$25 million three years ago. It's been priced at \$18 million for the last six months, listed by Corcoran's Aaron Lemma, Frank Castelluccio and Nicholas Hovsepian, who did not respond to requests for comment.

"Eventually, it'll find the right price and it'll find a buyer," Homet said.

However, that price is anyone's guess.

"The right price is what that right person who wants that triplex will pay," he said. "It's completely spectacular, and it's difficult to value because there's nothing to compare it to."

In general, high-end Brooklyn condos can be snapped up for less than Brooklyn townhouses, and far less than all their Manhattan counterparts. In 2011, for example, an \$88 million condo deal at 15 Central Park West set the record for the highest-ever Manhattan home sale, and units reportedly in contract for more than \$90 million at Extell Development's One57 may soon usurp that title.

Neighborhood records

Old Prospect Hts. record: \$3.3 million

New Prospect Hts. record: \$4.3 million

Not surprisingly, many of Brooklyn's emerging neighborhoods are also seeing record-breaking real estate trades.

"People are being priced out of the more gentrified areas," said Elliman broker Alex Maroni. "They'll go from Brooklyn Heights into Prospect Heights into Crown Heights."

One area that's seeing rapid price appreciation for that reason is Bedford-Stuyvesant. It's now common for brownstones in the neighborhood to trade for seven figures, but brokers said the million-dollar mark was, until recently, a psychological barrier for apartment buyers in the area.

But that changed in June, when the 1,559-square-foot penthouse at new construction condo 105 Lexington Avenue sold for \$1.04 million — a neighborhood record, according to Maroni, the listing broker.

Maroni attributed the high price to the apartment's size. The three-bedroom penthouse, which has a roughly 650-square-foot terrace and 13-foot ceilings, is “the size of a small house,” he said, making it “a very good alternative” to a brownstone.

He added that it was only a matter of time before a Bed-Stuy condo passed the million-dollar mark. “It was bound to happen — the market was already there,” he said, noting that in Bed-Stuy these days, “a brownstone is \$1.5, even \$2 million.”

Another neighborhood that has broken records recently is Prospect Heights. In June, a townhouse at 206 Park Place sold for \$4.3 million — the highest price ever paid for a house in the neighborhood. Broker Lynn Donawald of Park Slope-based Donawald Realty had the listing. The seller had owned the four-story house since 1976. According to the listing, the home has a two-level deck built out of Brazilian wood, a koi pond and a solarium.

That deal follows on the heels of the May sale of 166 Prospect Place in Prospect Heights, a house that set a record for the neighborhood when it sold for \$3.3 million.

Prospect Heights is one of the few neighborhoods in Brooklyn where the highest-priced home sale on record is a condo, not a townhouse. A 3,524-square-foot penthouse at the Richard Meier-designed new condo 1 Grand Army Plaza sold last year for \$5.1 million. The project, directly across from Prospect Park, is one of the few examples of “starchitecture” in Brooklyn.

In Boerum Hill, too, prices are on the verge of never-before-reached heights. The neighborhood's priciest townhouse sale took place in 2011, when 267 State Street — a new construction townhouse developed by Time Equities as part of its 14 Townhouses project — sold for \$3.4 million.

But that 2011 record is on its way to being broken again. Two other townhouse units at the project, 307 State Street and 303 State Street, are both listed for \$3.65 million, and are in now in contract, according to the listing agent, the Corcoran Group's James Cornell. He declined to reveal the sale prices, however.

Meanwhile, an 8,000-square-foot, 26-foot-wide townhouse at 374 Pacific Street is currently listed at \$7.25 million by Elliman's Maroni.

In 2010, the home was in such a state of disrepair that it sold at auction for just \$1.335 million. But when it hit the market in June of this year, it had been extensively gut-renovated, with a glass skylight atrium and landscaped backyard.

The property has been discounted from its initial asking price of \$7.9 million. But Maroni said he's already gotten several offers "in record-breaking territory," though the seller hasn't yet accepted one.

The house "will definitely be a record-breaker when it sells," he said. Since it's "nearly twice as large as the average house, on a price-per-square-foot basis we're actually not asking that much over average."

Priciest development site

Brooklyn record: \$185 million

Manhattan record: \$1 billion-plus

Last year, Two Trees Management bought the high-profile Domino Sugar factory site for \$185 million, setting a new record for the borough's priciest-ever development site, as *TRD* reported. Two Trees currently has plans to build some 2,284 apartments on the 11-acre site, in addition to converting part of the former factory to office space.

A challenge to that record may come from a lesser-known 3.75-acre industrial site at 462-490 Kent Avenue in Williamsburg, which hit the market last spring for \$210 million. The Kent Avenue site was approved for a zoning variance in 2010 that allows a developer to build up to 754 apartments, of which 226 must be affordable housing. Eastern Consolidated's Peter Hauspurg and Gabe Saffioti have the listing.

Over the summer, however, Saffioti told *TRD* that bids for the parcel had come in closer \$150 million.

Even the Domino Sugar site is small potatoes compared to Manhattan development sites, which have traded in the billions. In April, for example, Related Companies and Oxford Properties Group paid more than \$1 billion to the MTA for a 99-year ground lease of the Long Island Rail Road train yards on the West Side of Midtown Manhattan, where they will develop 26 acres with a new neighborhood containing over 13 million square feet of office, retail, residential, cultural and hotel space for the Hudson Yards project.

Highest office rent

Brooklyn record: \$40s per square foot

Manhattan record: \$200 per square foot

Brooklyn is also seeing an uptick in office rents.

When it comes to office leasing, "there's more money than product" in Brooklyn right now, said Aptsandlofts.com director of commercial leasing Chris Havens.

Until recently, office rents in Brooklyn topped out in the mid-\$30s per square foot, brokers said.

But in September, retailer West Elm signed a lease to take 150,000 square feet of office and retail space in the Empire Stores conversion project at 55 Water Street in Dumbo, where Midtown Equities is redeveloping seven historic warehouses to create 380,000 square feet of office, restaurant, retail and commercial space. Neighborhood sources said West Elm agreed to a rent of some \$40 per square foot, becoming the first large Brooklyn office tenant to pay that amount.

Now that that threshold has been crossed, “40 is the new 30” for Brooklyn office space, Havens said, particularly in buildings with water views.

The director of commercial leasing for Two Trees, Thomas Conoscenti, agreed.

“For a long time, [renting] above \$40 a foot was like breaking a four-minute mile,” he said. “This is the year you’re going to see that change. There’s a lot more players in the market; there’s a lot more interest in Brooklyn.”

And the new \$40-per-square-foot marker is likely to be a temporary record too.

Jared Kushner, RFR Realty and LIVWRK Holdings recently bought a six-property portfolio of Dumbo buildings from the Jehovah’s Witnesses. The developers are planning to revamp the buildings into a campus that includes office space with asking rents running into the mid-\$50s per square foot, the Wall Street Journal reported.

That’s still a bargain compared to Manhattan, where a few rare leases have passed the \$200-per-square-foot barrier. And this year so far, 50 leasing deals with rents above \$100 have been signed

Brooklyn’s tallest building

Brooklyn record: 596 feet

Manhattan record: 1,776 feet

Kings County is also breaking new height barriers. For decades, the Williamsburgh Savings Bank Tower was the tallest building in the borough, standing 512 feet tall. But in 2008, the Brooklynier, a new construction rental tower at 111 Lawrence Street in Downtown Brooklyn broke that record: the 51-story building is 515 feet tall.

But it’s already been surpassed by 388 Bridge Street, a condo/rental hybrid being developed by Avalon Bay, also in Downtown Brooklyn. The building, which topped out this spring, is slated to have 53 stories and be 590 feet tall. Soon after that, the 596-foot-tall Avalon Willoughby West at 88 Willoughby Street will edge past 388 Bridge.

Just as in prices, Brooklyn's towers are still relatively diminutive compared to Manhattan. The height record in Manhattan is currently held by the nearly completed One World Trade Center at 1,776 feet. The tallest Manhattan building with residences, meanwhile, is the under-construction One57, at 1,004 feet.