

CANAL SIDE DEVELOPMENT RESHAPING GOWANUS: INSIDE THE COMPLICATED CLEAN-UP OF THE GOWANUS CANAL



NEW YORK—The scrappy, industrial landscape along the Gowanus Canal is undergoing major changes. Large projects by big name developers are changing the aesthetics along the canal. The residents destined to move into the communities they are building will become part of the new, gentrified Gowanus.

By the end of next year, waterfront parks and esplanades will flank the Gowanus Canal on Bond Street at Lightstone Group's massive 700-unit rental project.

The canal's signature putrid smell has already dissipated. The City Department of Environmental Protection's (DEP) reactivated flushing the channel in May last year, following a four-year \$177 million upgrade. It now pushes fresher water from the Buttermilk Channel through the once stagnant canal.

But the Gowanus Canal has deeper problems. In 2010, the Environmental Protection Agency (EPA) declared the canal a Superfund cleanup site. Contaminants from manufactured gas plants, tanneries, mills, and chemical plants that used to operate along the canal have left mutagenic and carcinogenic agents, coal tar and other industrial waste in sediment in the canal. Some of those contaminants have seeped into the soil surrounding the waterway.

Despite the pollution, property developers have been paying large sums of money for parcels of land beside the canal. Residential property prices in the neighborhood have been rising steadily. New developments in Gowanus are asking as much as \$1,300 a square foot, according to real estate agent Doug Bowen, who recently moved from Core to Douglas Elliman.

Developers are attracted to land in Gowanus because of the neighborhood's proximity to Brooklyn's most coveted neighborhoods, like Carroll Gardens, Park Slope, and Cobble Hill, according to Luther Hines, licensed real estate salesman at Ideal Properties Group.

"Transportation is abundant," Hines said, "With the cleaning of the canal but with opposition of current residents and tenants along the canal there is a constant push and pull with the developers and neighborhood residents as to the use of the canal—production distribution, green space, privatization of waterfront property—I think that some developers envision a riverwalk similar to San Antonio or the like."

According to Hines, five years ago it would not be uncommon to see end users purchase small mixed-use buildings along Third Avenue for less than a million dollars, but now these buildings often trade for at least \$1.5 million, Hines said.

Complicated Contamination

The Superfund is only concerned with pollution in the canal, not pollution in the soil on the properties surrounding it. The soil is dealt with through the state's Brownfield Cleanup Program. But the Superfund is concerned about preventing further pollution of the canal. Especially from combined sewer overflows that push oily surface water and human waste into the canal during heavy rainfall.

Most of the infrastructure to increase the capacity of the storm water system in Gowanus is being done by the city DEP. The high level storm sewers (HLSS) that the city will build in Gowanus will come at a cost of approximately \$20 million. Utilities under the roadway are being relocated now, and the DEP hopes to begin construction of the new sewers in late 2015 or early 2016, according to spokesman Edward Timbers.

In the meantime, the Superfund is negotiating with the 30 parties it has deemed potentially responsible for the pollution. The negotiations will determine how much each party will pay toward the clean up costs, which total around \$500 million.

National Grid, which is cleaning up three polluted sites in Gowanus that it inherited from predecessor companies, and the city of New York are expected to pay most of the costs.

According to Christos Tsiamis, the EPA project manager for the cleanup of the Gowanus Canal Superfund site, the negotiations are about "trying to get everybody in the cooperative spirit, and not antagonize them."

For developers, the Superfund will want property owners to replace the aging, dilapidated wooden bulkheads that currently line the canal, with new state-of-the-art bulkheads, at the property owners' cost. The bulkheads will be designed to prevent residual contamination from spreading and permit the dredging of the canal.



Lightstone and the Superfund

So far, Lightstone is the only developer to voluntarily enter into a settlement with the Superfund.

The developer agreed to carry out some additional sampling, remediation, and pollution preventing measures on its property. The settlement, with a cost of \$20 million, in return ensures that Lightstone cannot be sued in the future for pollution of the canal.

According to Scott Avram from Lightstone, the rent price escalation in Brooklyn, an increasing desire for people to live in Gowanus, and the project's proximity to transportation, are all key for success. Avram worked for Toll Brothers at the time the developer was trying to move forward with its condo plan on the same site.

"There isn't a large scale rental community [in Gowanus]. So there's a tremendous demand and no supply, and that's where we saw the demographics part of it and all the positive characteristics kind of collide," Avram said.

The project has a 421-tax abatement, and the site was eligible for brownfield tax credits to remediate the land.

"As a developer, when you are building a rental, it's really more of a long-term hold. So you're really more ingrained with the community for infinite years to come," said Scott Avram, from Lightstone.

So far, only one other developer, the nonprofit that is renovating the abandoned powerhouse near Whole Foods, is also considering entering into a settlement with the Superfund.

Philanthropist Joshua Rechnitz—the same man who wanted to build a velodrome at Brooklyn Bridge Park—bought the abandoned building at Third Avenue and Third Street in Gowanus in 2012 for \$7 million. His nonprofit, Gemini Arts Initiative, is doing a multimillion-dollar remediation of the property, which has PCP contamination from electrical equipment disposed of at the site.

An agreement with the Superfund would speed up the permitting process to install the new bulkheads and allow the developer to complete the site cleanup under EPA authority.

Remediating Gowanus

Developers had seen potential in Gowanus even before the financial crash of 2008. Toll Brothers had planned to be pioneers in Gowanus. It had planned a huge condominium project along the canal, where the Lightstone project is being constructed now.

After spending three years successfully completing the rezoning process, Toll Brothers bailed on the site in 2010. According to Ethan Geto, a spokesman for Toll Brothers, the Superfund designation made their proposed high-end condos seem simply too difficult to market.

Lightstone later inherited the rezoning from Toll Brothers. Today, the first phase of its 700-unit rental community on Bond Street is nearing completion.

Another massive residential project, Gowanus Green, a 774-unit affordable housing project will be built on another brownfield site at Smith and Fifth streets. This project will also have esplanades along the canal and public green spaces. Seventy percent of the units will be affordable, with 100 of the apartments designated as affordable rentals for the elderly.

Before construction can start at the Gowanus Green site, National Grid must first complete its remediation efforts. The anticipated completion of Gowanus Green is sometime in 2017.

Without the repulsive smell of years past, Gowanus is becoming ever fashionable.

Last year, big name developer Kushner, in partnership with two other real estate companies, snapped up the 3-acre site at 225 Third Street between Bond Street and Third Avenue (across the street from Whole Foods) for a reported \$70 million to \$80 million. Kushner has not announced what it and its partners are planning for the site, but it will likely be a mixed-use commercial development.

Entrepreneurs have brought trendy business concepts to the neighborhood in recent years. Gowanus is now brimming with popular restaurants, bars, entertainment venues, and art concepts.