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Brooklyn: 'Like a desert with no cactus'

Despite strong demand for condos, pipeline in borough is pumping out more rentals

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Condo buyers in Brooklyn are in for a rude awakening for the next few years.
While there are plenty of new development rentals to choose from, the pipeline of for-sale units in the already inventory-starved borough is paltry.

This month, *The Real Deal* looked at all of the condominiums slated for Brooklyn, and found that the trickle of projects in the works will not be enough to meet the demand.

TRD combed through Department of Buildings records and found 23,700 Brooklyn residential units in the pipeline across 137 projects. Of those, only 1,900 (or about 8 percent) are expected to be condos. Plans are unclear for 4,200 of the units, while rentals account for the bulk: 17,600.

“I think that there’s not enough on the market right now and there’s not going to be even in a year,” said Ofer Cohen, founder and president of Brooklyn commercial brokerage TerraCRG, who regularly works with residential developers looking for sites to build on. “It’s going to take a long time for condo inventory to get into this pipeline, and for the foreseeable future there’s not going to be enough of it.”

The landscape is already a frustrating one for buyers, said Ralph Modica, a Douglas Elliman broker based in Williamsburg. “It’s definitely like a desert with no cactus. It’s really sparse.”

Playing catch-up

The imbalance in the market is largely an echo of the recession. The 2008 downturn, of course, made lenders hesitant to underwrite condo projects in Brooklyn. In the years that followed, rentals also seemed like the logical choice for developers who wanted to protect themselves against market fluctuations. As a result, the vast majority of projects that got off the ground were rentals.

“People got pretty burned during the last downturn doing condos,” Cohen said. “I think that coming out of the recession there wasn’t even a conversation. No one even thought they wanted to do condos again, because there was no need. The residential mortgage market hadn’t come back yet.”

But with a new generation of buyers hungry to move to (and buy in) Brooklyn, there is simply not enough supply to meet the demand.

And while some of these new Brooklynites were renting at first, they are getting older and starting to look for premium for-sale product.

“They expect relatively large space. They expect a lot of light. They expect floor-to-ceiling windows,” said Brooklyn-based Ideal Properties Group co-founder Aleksandra Scepanovic. “Old or existing condo and co-op stock really can’t offer it.”
And developers can only respond so quickly.

“Everything takes a couple of years to kind of catch up,” Elliman’s Modica said.
Cohen said he doesn’t expect to see a noticeable uptick in condo inventory for two or three years.

The lucky few

The relative dearth of condos in the pipeline leaves a select few projects in a sweet spot with a very captive audience.

That, not surprisingly, is quickening absorption rates and driving up prices. Indeed, the median price of a Brooklyn home shot up 25 percent in just one year to $550,000, according to the Corcoran Group's first-quarter market report.

Cohen predicted that condo pricing would "not level off anytime soon."

One of the biggest in the borough's pipeline is 550 Vanderbilt, a 278-unit condo building that's part of Greenland Forest City Partners' mega-project near Barclays Center. Formerly known as Atlantic Yards, the development was rechristened Pacific Park late last year.

Prices at the project will range from $550,000 for the least expensive studios to $5.5 million for some of the maisonette and penthouse units. Sales launched in mid-June, and the building should be ready for move-ins by the end of 2016.

"We anticipate being sold out by then, no problem," said Jodi Ann Stasse, managing director of new development for Citi Habitats, who is marketing the building.

Other major condo buildings include Xin Development's 216-unit Oosten in Williamsburg, where prices start around $710,000 and soar up to $6.5 million. Units at the Oosten — like those at several other Brooklyn condo buildings where construction is not yet complete — are selling fast. StreetEasy data shows that at least 132 units are already sold or in contract since sales launched in September.

Meanwhile, at the Boerum, a 128-unit condo building, developer Flank launched sales in December and was 50 percent sold by March. There were only 28 apartments in the building, which has a 2016 occupancy, that remained unsold as of mid-June, though not all were listed yet, a Flank representative said.

There are a handful of other high-profile projects on the market, including Toll Brothers' Pierhouse, the Stahl Organization's 388 Bridge Street and Alloy Development and Monadnock Construction's 1 John Street. But all of those projects have already sold 50 percent of their units or more.

The big switch

Industry players in Brooklyn are buzzing about developers switching their projects from rental to condo. Sources say that switch is being considered by developers who originally conceived their projects as a rental, but are still early enough in the development process to make changes, or for existing rentals buildings.

"We are talking to a number of developers right now who were thinking about rentals, but are now thinking about switching to condo, but nothing's firmed up yet," said Stephen Kliegerman, president of Halstead Property Development Marketing.

TerraCRG's Cohen said he has heard similar rumblings, but that developers are not ready to reveal their revised plans.

Greystone Property Development Corp. is one developer, however, who has reversed course. At WaterBridge 47, a 25-unit project in Vinegar Hill, Greystone was planning rentals, but decided early on in the development process to go condo instead, according to a company representative.

Sales launched in December, with apartments priced from $850,000 to $2.2 million. According to StreetEasy, 14 of the units are currently in contract.

The borough's highest-profile condo conversion project is a partnership between Kushner Cos., Rockpoint Group, and LIVWRK at 184 Kent Avenue.

In April, the developers bought the 338-unit rental building on the Williamsburg waterfront for $275 million from developer Jason Halpern's JMH Development (see related story on page 26). They are now planning to convert it into the Austin Nichols Condominium, with units ranging from $800,000 to $3 million, though they have not yet said if the unit count will shrink as part of the conversion.

Nearby at the Edge, Douglaston Development has broken ground on phase three of its waterfront development. In December, the New York Times reported that the project is slated as 550 market-rate rentals, but Elliman's Modica said he has a sneaking suspicion that it could flip to condo.

"It would make sense when it comes to market two or three years down the road," said Modica, who has no inside information.

Representatives from Douglaston did not reply to a request for comment.

Where to go?

Though it's clear that there is no shortage of demand, it's difficult to build large-scale condo buildings in the most desirable, prime Brooklyn neighborhoods.
That's because they may be less likely to qualify for zoning variances, and many of the most expensive areas have density limitations.

Alloy's Jared Della Valle, whose 1 John project is in Dumbo, said there are just not a lot of big condo projects, of say, "300,000 square feet." "We just don't see those sorts of condo projects in Brooklyn," he said.

David Ruff, a principal of Nava Companies and the developer of 210 Pacific Street in Cobble Hill, echoed that point. "The limited-height district creates a happy neighborhood feel, but it will also drive a demand-supply offset," he noted.

Cohen sees Park Slope as ripe for development, because it's an area that hasn't seen any major condo projects recently.

"There's a real need in Park Slope for for-sale housing options. It's an area that's been attracting a lot of families and there's not enough of it," he said.

He also cited Crown Heights, Bedford-Stuyvesant, Clinton Hill, and "to some extent Bushwick and Prospect-Lefferts Gardens" as possibilities for the next condo boom areas, given that units in those locations can still be priced between $400,000 and $700,000 — attractive prices for a first-time homebuyer.

At 782 Hart Street in Bushwick, a 24-unit rental that went up in 2012, the landlord isn't wasting any time capitalizing on the trend. In early May, residents received notice that a condo conversion plan is underway.

And potential buyers continue to swarm the borough. "I think that we are nowhere near that saturation point," Ideal's Scepanovic said. "We're at maybe not ground zero, but we're at ground one out of at least 10 levels to come."