The New York Times

March 16, 2018

# As Brooklyn Towers Soar, a Sinking Feeling for Developers

*Stefano Ukmar for The New York Times*

From a penthouse apartment in the Hub, a new 610-foot rental tower in Downtown Brooklyn that is — for now — the borough's tallest, its developer groused about timing.

"Not early enough," said Doug Steiner on a recent tour, lamenting his firm's belated decision to add a rooftop lounge that is still under construction. It seemed an odd quibble for a building that has nearly an acre of finished amenities, including a 75-foot indoor pool, a home theater, cabanas for outdoor grilling and a dog run. About 65 percent of its 600 market-rate units have leased since last spring, he said.

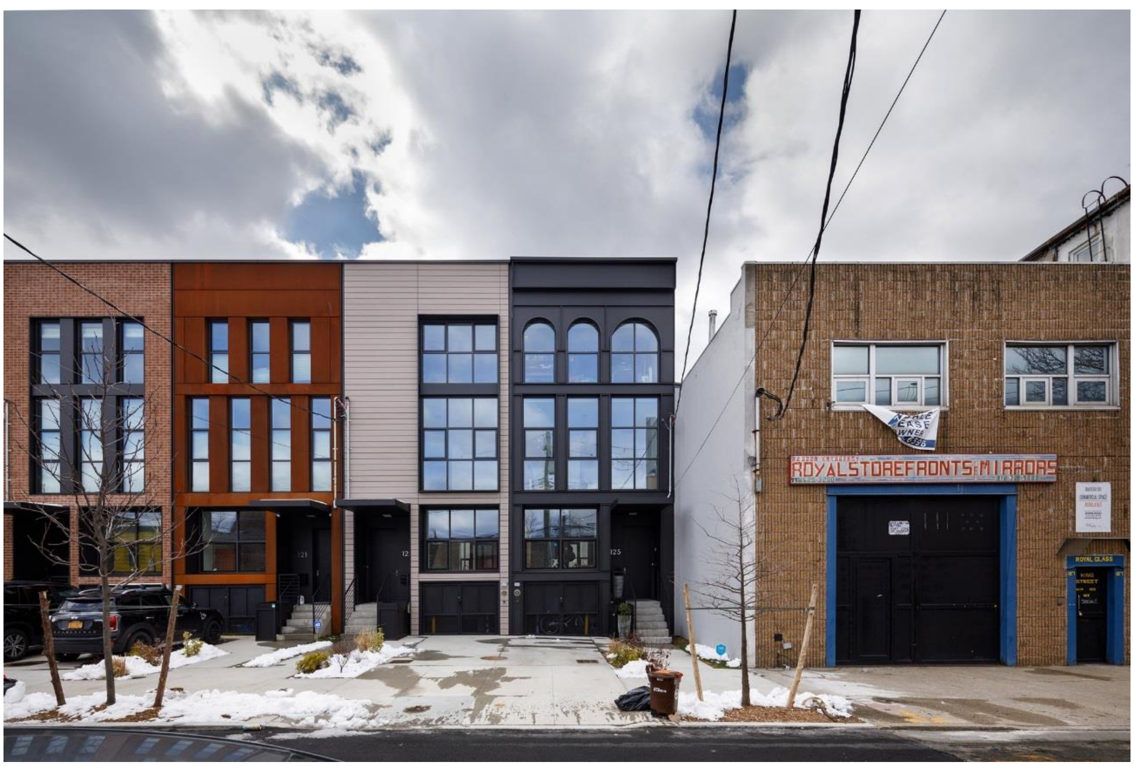
But one need only look beyond the apartment's floor-to-ceiling windows to glimpse at Mr. Steiner's competition. A construction crew nearby is building Brooklyn's next-tallest tower, a 720-footer by the Manhattan developer Extell, which will have a rooftop pool with stunning views. A few blocks over, the developer JDS is laying the groundwork for Brooklyn's first super-tall skyscraper, a residential tower expected to reach 1,066 feet. Both are aiming for completion in 2020.

“It’s impossible to know where the market will be when we finish,” said Mr. Steiner, who decided to add the rooftop lounge halfway through the four-year build. “We want to have everything that everybody else has, and more.”

Uncertainty hangs over the roughly 28,400 rental units expected to be built in Brooklyn over the next several years — about a thousand more than all the units built in the past decade, according to Nancy Packes Data Services, a real estate consultancy. Faced with falling prices, developers are offering concessions like a month or more of free rent, discounted broker fees and even free parking for a record share of apartments.

While there is still high demand for housing in the borough, New York’s most populous, a rising vacancy rate for the most expensive units undercuts the tremendous growth seen over the past decade. At the lower end, affordable housing lotteries, for the few thousand apartments made available below market rate through the new development, often draw tens of thousands of applicants per project.

Sensing the shift, some developers are pushing farther into the borough, with condo and rental projects that test local price records. Is Brooklyn’s moment over? Not likely — but developers are watching the clock.




*The King and Sullivan development, a 22-townhouse complex, in Red Hook. Stefano Ukmar for The New York Times*

The rental market, which makes up roughly three-fourths of the borough’s housing, peaked in 2014, when units leased for a median $2,936 a month, according to a Douglas Elliman Real Estate report. The median rent has since fallen more than 10 percent, to $2,632 in February, as existing units vied with new competition. To grease the skids, developers have ramped up their marketing, often offering concessions to fill units quickly, said Jonathan J. Miller, an appraiser who prepared the report.

Developers' reliance on concessions "is probably the worst-kept secret in the rental market," said Mr. Miller, who found that 47.5 percent of Brooklyn rentals offered some form of sweetener in February, a record high. In the same period last year, just 15.7 percent had concessions. On average, renters received the equivalent of 1.4 months of free rent, with most of the concessions on one-year leases, Mr. Miller said.

The incentives were most common in three of the borough's most expensive neighborhoods — Dumbo, Downtown Brooklyn and Fort Greene — each of which offered concessions on more than 80 percent of known leases in January. The analysis doesn't capture the whole market, Mr. Miller said, because unlike sales, leases are not public record and developers are motivated to keep their numbers close to the vest.

"Developers want to maintain their listing prices, and then futz with the numbers behind the scenes," said Paul Johansen, an associate broker with CORE Real Estate. "A couple years ago, there were no concessions whatsoever."

That hasn't deterred builders from moving forward with thousands of new units, most of them geared toward the luxury market. In 2017, more than 5,700 rentals hit the market — the most units in a year since 2008, said Nancy Packes, the real estate consultant. And the future pipeline shows no signs of slowing: About 6,100 units are expected this year, followed by almost 9,600 in 2019.

Ms. Packes, whose clients include Brooklyn developers, said the surge in supply is cyclic, with the glut clearing out by 2019 or 2020. "They're looking at the trees, not the forest," she said about growth skeptics, noting that demand remains strong, fueled by a strong job market and population growth.

For renters accustomed to Manhattan prices, Brooklyn can still seem like a relative bargain. After concessions, the median rent price in Manhattan was $3,168 in February, Mr. Miller said; in Brooklyn, it was $2,632.

Eileen Norton, 28, who works for IBM's Watson Health division, is in a two-year lease at the Hub for a one-bedroom apartment, where she lives with her boyfriend Kevin Gallagher, 29, an accountant. The couple effectively pays around $3,350 a month, after calculating the two free months of rent. (Smaller one-beds started at $3,000.) They also received five months of free amenities — including the pool and gym — that typically cost $75 a month, per person. Almost 90 percent of the Hub's market-rate apartments are studios or one-bedrooms and seem geared toward young professionals, which could explain why the children's playroom was impeccably clean, and empty, on a recent tour.

*325 Kent, a 522-unit rental building in South Williamsburg designed by SHoP Architects. Adrian Gaut*

In Manhattan, where she lived for five years on the Lower East Side, "I could barely find a one-bed in the same price range, with amenities that could compete," she said. Her new rental has a washer/dryer, expansive city views and welcome perks, she said: "It's my first apartment in New York with an actual coat closet, which is amazing."

In spite of high demand for Brooklyn housing, the new supply remains heavily skewed toward luxury apartments. Overall, New York City had a rental vacancy rate of 3.63 percent, which qualifies as a housing shortage, according to the city's latest Housing and Vacancy Survey. New York has remained below 5 percent rental vacancy since at least World War II, said Moses Gates, the director of community planning and design for Regional Plan Association, a nonprofit research and advocacy group.

But in the luxury segment, apartments priced at $2,500 or more had a vacancy rate of 8.74 percent, which was "at or approaching" a record high, Mr. Gates said. While the full survey, including a breakdown of Brooklyn vacancy rates, will not be released until summer, there already are signs of a shift at the top of the market, he said.

"We're at or close to an inflection point, same as we were in 2007," he said, referring to the recession, when luxury prices flattened and high-end development stalled.

Still, Brooklyn is sprawling, and some developers are testing markets farther afield. In South Williamsburg, the former 11-acre Domino Sugar refinery site includes 325 Kent, where more than half of the 522 units have been leased since last summer. The waterfront development is about a 15-minute walk to the nearest subway; the copper-and-zinc structure with a hollow doughnut core, developed by Two Trees Management and designed by SHoP Architects, has studios for $2,620 up to two-bedrooms starting at $5,520. (A leasing fact sheet on the premises recently offered a reduced rent, based on two months free for a 14-month lease.)

Pablo Marvel, 25, a co-founder of Nova Concepts, a real-estate marketing and tech firm that uses drone photography, moved into a studio apartment in the project in September. “I still feel like people think Manhattan is the epicenter of New York, which is simply not true,” he said. While his office is in the nearby Brooklyn Navy Yard, he said he uses the building’s waterfront common areas, complete with Ping-Pong and pool tables, as a satellite office. Kate Treen, a spokeswoman for the project, said about 40 percent of residents work from home.

To entice renters, the building also offered six to 12 months of free parking, which typically costs $350 a month, and will begin shuttle service to the nearest subways. (L train service will end for more than a year beginning in 2019.)

In Red Hook, a neighborhood along the East River that lacks direct subway access, the developer Sanba has built a 22-townhouse complex of four-bedroom homes ranging in price from $2.95 million to $3.41 million. After a year and a half, the development, called King and Sullivan, has three remaining houses for sale, asking more than $1,100 a square foot, a record for the neighborhood, said Mr. Johansen, the CORE agent who is selling there.

*A view of the East River and Manhattan from 325 Kent. Stefano Ukmar for The New York Times*

Maryanne Butler, 42, and her husband Murray, 47, who both work for Framestore, a visual-effects company, bought one of the houses last year, after living in Cobble Hill, a more central Brooklyn neighborhood, for nine years. "We wanted something more suburban," she said. The couple's roughly 2,800-square-foot home is a short walk to the recently opened NYC Ferry service that connects to Manhattan and Queens.

Brooklyn sales, unlike rentals, continue to climb in price, albeit at a slower pace than in years past. In the last quarter of 2017, the median sales price rose to $770,000, up 2.7 percent from a year earlier, the third highest price ever recorded in the borough, according to a Douglas Elliman report, in part because inventory has been tight.

While there is a surfeit of luxury condos in Manhattan, the for-sale market in Brooklyn still has room to grow in several neighborhoods, Mr. Miller, the appraiser, said.

To address the affordable housing shortage, the city has committed to preserving and creating 300,000 affordable apartments by 2026. But providing tax breaks to luxury developers to have them build a percentage of below market rate units may not be the most effective approach, critics say.

"When you talk about affordable housing, one of the questions is: affordable to whom?" said Bernell K. Grier, the executive director of IMPACCT Brooklyn, which helps place applicants in the city's affordable housing lottery. While Brooklyn developers can receive tax breaks to reserve about 20 to 30 percent of their units for below market rate renters, the resulting mix of units can still be unaffordable to long-term residents. For instance, at one upcoming project in Clinton Hill, the "affordable" units are reserved for tenants making 130 percent of the area median income, which for a two-bedroom apartment could cost more than $2,700 a month.

Despite the intense demand for affordable housing, filling the units is not always easy. At 535 Carlton, more than 90,000 applications were filed for the 300-unit below market rate rental building, said Ismene Speliotis, the head of MHANY Management Inc., which handles the lottery. While the building included studios priced at $548 a month for New Yorkers making as little as $20,126 a year, half the units were reserved for those making between 145 and 160 percent of median area income. Those units, including a two-bedroom asking $3,223 a month, have struggled to find renters, she said, because they are competing with similarly priced market-rate apartments in the Pacific Park area that don't require as thorough or as invasive a vetting process.

For Dawn Trautman, a 45-year-old actor, finding an affordable apartment through the lottery took five years of searching and applications to about 40 buildings. She first entered the lottery in 2012; two years later she was considered for an apartment in Midtown Manhattan, but because she had difficulty verifying her income, she was disqualified.

Late last year, she was chosen for an opening at the Hub After providing three years of income verification and notarized letters from seven previous employers, she qualified for a 17th-floor one-bedroom with a washer/dryer and the same expansive views afforded to market-rate tenants. Her apartment, reserved for tenants making 60 percent of the area median income, costs $895 a month, while similar market-rate units start at $3,000 a month.

Ms. Trautman, who moved into the space in February, said this will be her first permanent home in New York since 2008. For years, she has stayed with friends or subletted apartments while pursuing acting and other work outside the city. “It still feels like I’m house sitting,” she said by phone, while wrapping up a job in Atlanta.