Real Estate Forefront Report: Northern Brooklyn

Which had a Greater Impact on the Investment Market: McCarren Park's Renovation or The New Barclays Center

As investors have flocked to Brooklyn over the last five years to build and convert loft buildings into housing, retail and hotels, two separate public infrastructure investments had very distinct impacts on their respective neighborhoods: the McCarren Park renovation on Greenpoint / Williamsburg and the new Barclays Center in Downtown Brooklyn/ Fort Green. Both investments took more than two years and involved tens of millions of dollars, and each had a significant impact on sales volume and prices.

The overall statistics on commercial property sales in Northern Brooklyn shows that sales jumped disproportionately more in these two areas from 2011 through 2013 as these two projects spurred significant new investment activity. But which project generated more investment activity? The purpose of this micro analysis is to review the sales transactions surrounding the two sites to determine what impact the investments had on developers and buyers of property in the area and how prices responded.

The report covers all commercial sales within a half-mile radius surrounding the two properties. The findings show that:

- *Investment volume jumped more around McCarren Park over the last two years than it did near Barclays for development sites and multifamily although the Barclays Center area saw more retail property investment sales.*
- *Prices were generally higher near McCarren Park but have recently increased near Barclays Center.*

As per Chairman and CEO Peter Hauspurg, "These areas in Brooklyn have undergone tremendous transformation over the last few years. Buyers who purchased property in 2009 and even 2011 near these sites have seen their investments nearly double in this short time."

McCarren Park Renovation vs. Barclays Center

Background

McCarren Park underwent a complete overhaul that included a three-year, $50 million renovation of its large pool and year-round recreation center. Viewed as a prized neighborhood amenity, the pool's opening in the Summer of 2012 stimulated optimism that neighborhood real estate values would increase. It also transformed the image of the park from that of a hipster hang-out to a family-friendly place. Notwithstanding the overcrowding problems in the early days of the pool's opening, the park and pool have won over the local residents and have pushed up real estate values and investors' attention.

Likewise, the Barclays Center which broke ground in March 2010 opened in September of 2012 to rave reviews. As the signature development of the planned $4.9 billion Atlantic Yards, it was hoped that Barclays Center would also drive further residential and commercial development in the area and increase land values.

A close look at the property sales in the area shows that both were successful in generating investor interest, but investment activity increased significantly more around McCarren Park than it did around Barclays Center. However, while prices were generally higher around McCarren Park, prices increased at similar rates in both neighborhoods.

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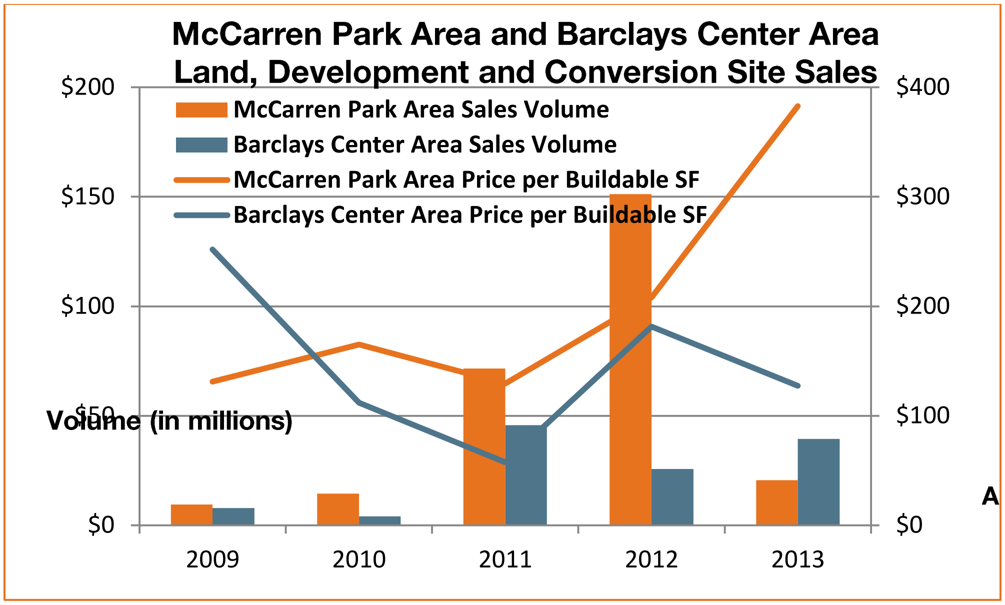
Land, Development and Conversion Sites



Source: Eastern Consolidated. CoStar, PropertyShark and NYC Dept. of Finance

The land, development site and conversion site sales included in the chart above include all of those within a half-mile radius of McCarren Park (27 transactions from 2009 through June 2013) as well as a half-mile radius around the Barclays Center (24 transactions from 2009 through June 2013). One could argue that sales volume in these areas is based somewhat on demand but also on what owners put on the market. That said, the numbers on development site sales indicate that owners around McCarren Park have been more optimistic than those around Barclays Center. For example, in the McCarren Park area, 14 land or development site transactions closed in 2012 alone at an average of $10.8 million per transaction. For the Barclays Center area, 10 land/development site sales closed for an average of $2.6 million.

The average prices paid per buildable square foot were higher in the McCarren Park area mainly due to the fact that nearly all of these sites were purchased for residential development given the increased popularity of the area. The most recent sale was for 137-143 North 10th Street, a classic warehouse conversion site one block south of McCarren Park that traded for more than $500 per buildable square foot. This higher price paid is justified given the prices of condominiums in the area approaching $1,000 per square foot. The top units in the five-story, loft brick building will likely feature views of the park. These increased housing prices are shown in the multifamily chart below.

Multifamily

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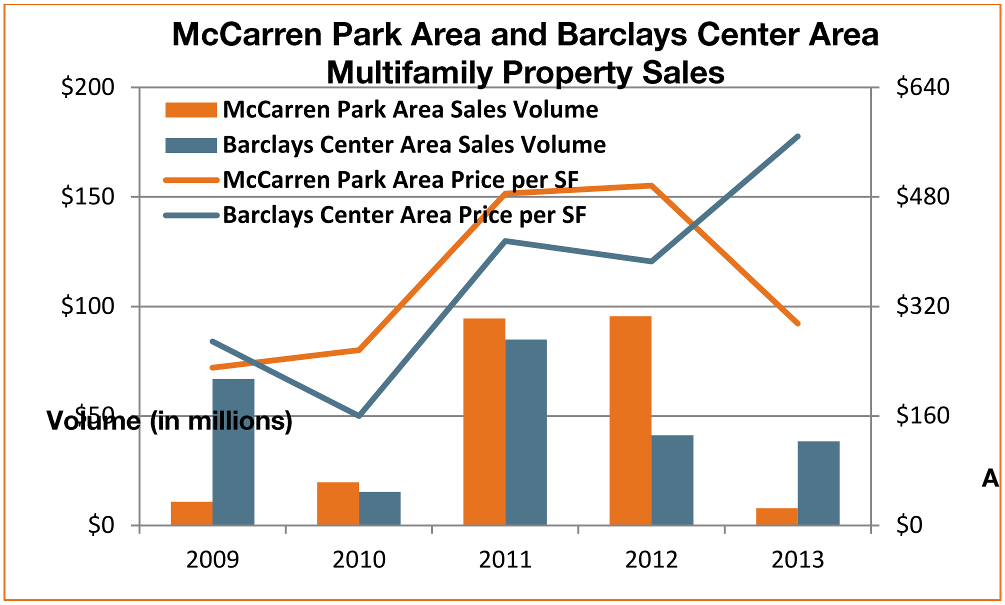


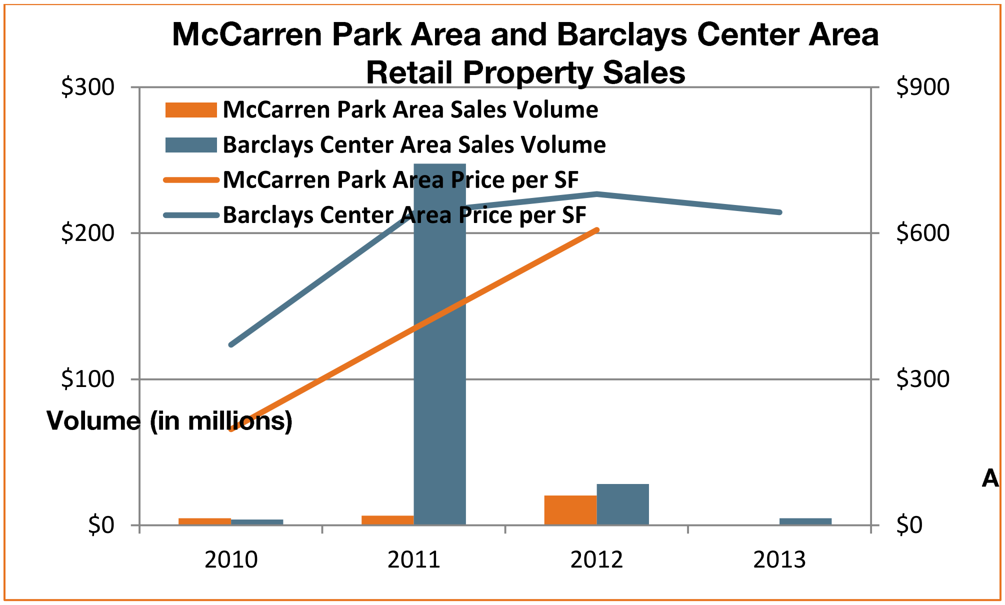
Source: Eastern Consolidated. CoStar, PropertyShark and NYC Dept. of Finance

The multifamily sales chart shows how volume increased more around McCarren Park than around Barclays Center and prices paid were higher as well. The decline in 2013 was based on a limited number of small transactions that have closed this year. In contrast, the price jumped near Barclays Center, but that was due to one sale across from Barclays that symbolizes the sharp shift in property values in the area: on May 1st, Thor Equities closed on its $23 million purchase of Atlantic Gardens, a mixed use cluster of multifamily buildings with retail. These same buildings that include more than 10,000 square feet of unused air rights had traded for $10.93 million just two years ago, representing an increase of more than 100%, although, the last owner had done a major renovation.

Still, the volume of sales around McCarren Park was higher in 2011 and 2012. The 2011 statistics are heavily weighed by the $25 million sale of a condominium package (37 units) at 20 Bayard Street, a newly built residential building that faces McCarren Park. That sale worked out to more than $1,000 per square foot. The chart above shows how multifamily sales volume near Barclay's Center declined in 2012 even though sale volume soared for multifamily properties in most Brooklyn neighborhoods.

Retail

Finally, retail property sales tell a somewhat different story; that is, retail property sales around Barclays Center were higher and had a higher asking price. The chart below is dominated by two properties in Forest City Ratner's retail portfolio sale to Madison International Realty in 2011. The 49% interest traded for an average of $580 per square foot and included Atlantic Terminal at 139 Flatbush Avenue as well as Atlantic Center at 625 Atlantic Avenues both of which are across from Barclays Center. Even without these building sales, average prices for retail properties were higher around Barclays Center than around McCarren Park. This is likely due to the draw of foot traffic to the area around Barclays from tourists going to events at the Center but also due to a higher density of office workers in the area on a daily basis. The retail around McCarren draws more from the residential population in the area, but still attracts a number of tourists. Still, both areas show an upward trajectory in prices per square foot.



Source: Eastern Consolidated. CoStar, PropertyShark and NYC Dept. of Finance

Conclusion

The analysis and charts above show how investors have responded to two public investment projects in Brooklyn. While the volume of sales and prices paid clearly increased more around McCarren Park than around Barclays Center, it is important to look at other factors that may have affected these neighborhood values. It does not take an analyst to know that the Williamsburg/Greenpoint area is more of a residential designation --and a popular one at that – while the Downtown Brooklyn/Fort Greene area is more of a commercial and cultural center. The differences in these two classifications may have had as much of an impact on sales volume and prices over the last few years as the mentioned projects have had. Still, we believe that this analysis and comparison was a worthy exercise given how volume did jump in both neighborhoods and that the impetus for investing in these two projects was to spur further development.

One can take the findings of this micro analysis and apply them to New York City's overall economy. That is, any and all public or public-private infrastructure investment that created non-commercial amenities to a neighborhood most likely had a greater impact on investment sales and prices than a publicly financed commercial investment. For example, the impact of the High Line's redevelopment probably had more of an impact on investment sales and prices in West Chelsea than any other public-private investment in New York City's recent history.

This is not to say that some publicly financed investments are more important than others -- quite the contrary. In short, while early investors and neighbors benefit from the neighborhood amenities of a McCarren Park or a High Line, the impact from public and public-private investments should be measured in jobs created and other terms that fall beyond the scope of this analysis.