



Rezoning creates B'klyn cyclone

Investors buy into downtown frenzy; overheated market?

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Last spring, it was just another gritty parking lot at Flatbush Avenue and Myrtle Avenue in downtown Brooklyn. Today, even \$25 million isn't enough to buy the 25,000-square-foot parcel.

Welcome to the new downtown Brooklyn. Following a sweeping rezoning of the district in June, the area's property market has taken off, with developers and investors poised to build office towers, hotels and luxury condos, and willing to pay top dollar to do so.

"There's very little inventory, and guys are getting crazy numbers," says Bob Klein, a senior director at real estate brokerage Kalmon Dolgin whose client dropped out of the bidding for the parking lot when his \$25 million offer came up short. According to Mr. Klein, the latest bidding was up to \$31 million--more than \$100 per buildable square foot.

City leaders pushed the higher-density rezoning to make the area a more vibrant commercial core and a magnet for businesses that might otherwise seek space out of town. They expect the changes to result in 4.5 million square feet of new office space within 10 years.

With an office vacancy rate of only 6%, according to Cushman & Wakefield Inc., the area is being scoured by investors for industrial buildings that can be replaced with offices. Prices for such treasures have risen about 30% since the rezoning, says Ralph Trionfo, president of **Upside Ventures**, a Manhattan-based real estate investment firm. "There are no existing office buildings, and these landlords know it," he says.

Money no object

Mr. Trionfo, who is mining the area for an office tower site on behalf of an investor group, says his clients are raring to go even with the rising prices. One reason is that offices in Brooklyn cost at least 25% less than comparable product in Manhattan, and are expected to remain a cheaper alternative despite the current bidding wars.

Another reason is that Manhattan companies want nearby backup offices on a separate power grid.

"I'll pay the price if I can find the right site," says Mr. Trionfo. "My guys are saying, 'We're not going to wait for a tenant--we want to have product available.'"

For all of the interest in office space, there is at least as much buzz about residential development. The HSBC Bank tower and the Verizon building at MetroTech Center are generating strong interest from buyers who plan to convert them, at least in part, to luxury housing units. The Verizon tower is said to have drawn a recent bid of \$68 million.

It's easy to understand why. Residential developers can sell condominiums at \$525 a square foot, according to Mr. Klein, while Class A office space downtown might bring in \$40 a square foot. That means it would take roughly more than a decade of office rents to earn the same return as a condo sale.

A hotel is also in the works in the neighborhood. Mr. Klein reports that a client bought a 15,000-square-foot plot at Willoughby and Bridge streets three months ago for a hotel that could be about 22 floors and 210,000 square feet. The Manhattan-based developer paid \$9 million--a huge leap from the \$2 million that Mr. Klein says the land was probably worth before the rezoning.

But the rezoning is not the only factor behind all the activity. Just outside the rezoned area, in Fort Greene, an arts district is being developed around the Brooklyn Academy of Music. Nearby, developer Bruce Ratner is moving ahead with his plan to build a residential and office complex around an arena for the Nets, which he acquired last year.

Architect Frank Gehry is designing the arena, and rising star Enrique Norten is designing a sleek arts library for the cultural district.

Will they come?

"I think developers are seeing that there is much more upside in Brooklyn than probably anywhere else in the city," says Cushman Executive Director Glenn Markman.

Of course, the deals could come back to bite those who make them if the tenants don't appear on cue. Some believe that the speculation is getting a bit overheated. As Mr. Klein says, "The question is whether you can fill up the buildings."