# Brooklyn Hotel Market: 2014 Outlook

MASSEY KNAKAL
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Despite Brooklyn's high density and large population, the Brooklyn hotel market is relatively small with 47 hotels of 10,000 SF or more in operation. As Brooklyn has become an increasingly popular destination for tourists and for business travelers, this long underserved hotel market has attracted the attention of developers. The number of hotels in Brooklyn is quickly growing as hotel developers add supply to meet increasing demand. This wave of hotel development activity is primarily focused around major attractions and nodes of transit.

Downtown Brooklyn is at the heart of Brooklyn's hotel boom benefitting from the New York metro area's third largest central business district and one of the nation's foremost entertainment venues, the Barclay's Center. There are currently four significant hotel projects under construction in Downtown Brooklyn bringing approximately 635 new rooms to the market over the next 18 months representing an increase of nearly 10% in Brooklyn's hotel room supply. Additionally, there are three substantial hotels in Downtown Brooklyn's pipeline that will add approximately 460 more rooms to the inventory in the next 18-24 months.

Despite increasing supply, Brooklyn appears to be poised to support more hotel development. Projections for increased numbers of visitors to the New York metro area exceed 55 million in 2014, and are forecast to continue to rise as the national economy improves and international travel increases. Specifically, Brooklyn hotels will enjoy a healthy portion of the business generated by the influx of visitors in 2014 and beyond.

### Brooklyn Market Highlights 2013:

- Total Hotels: 47 (hotels of 10,000+ SF)

### Downtown Brooklyn Development Summary

- Total Projects Under Construction: 4
- Total Rooms Under Construction: 635
- Total Projects in Pipeline: 3
- Total Rooms in Pipeline: 466

For more information, or if you would like Massey Knakal to create a Complimentary Opinion of Value for your property. Please do not hesitate to contact me, Stephen Palmese at **718-307-6552** or **spalmese@masseyknakal.com**

## Massey Knakal's Downtown Brooklyn Team

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Stephen Palmese was recently selected as one of the 45 most influential commercial real estate professionals in the nation by ALM Real Estate Forum Magazine in their National 45 Under 40 List. During the first half of 2012, at age 30, Palmese arranged 8% of all commercial real estate sales in Brooklyn. The results landed him on the roster of Top Investment Sales Broker in New York by RE Forum in 2012 and 2013. Stephen, a Brooklyn native, began his real estate career with Massey Knakal in 2004 after graduating from Georgetown University. Since joining the firm, Stephen has sold over 100 properties throughout New York City with an aggregate consideration of over $700,000,000. Stephen's single focus over the past decade is exclusively representing owners and principals on the positioning and disposing of their assets for maximum value.

# 2014 Downtown Brooklyn

## Property Sales Report - 2Q'14

MASSEY KNAKAL Realty Services

April 2014

### 1Q14 NYC Investments Sales Overview

2014 has been a banner year in the New York City investment sales market thus far with numerous records on pace to be broken, setting up 2014 to be a historic year across several pricing metrics. 1Q14 has produced $13.3B, the highest first quarter outpost since the recession and second largest first quarter result on record. On an individual market level, Brooklyn ($1.7B) and Queens ($830M) posted all-time record highs for a first quarter. Annualized figures show NYC is on target to exceed $53B, with our forecast expecting $63B by year's end. If achieved, it would surpass 2007's production of $62B, the yearly record for NYC.

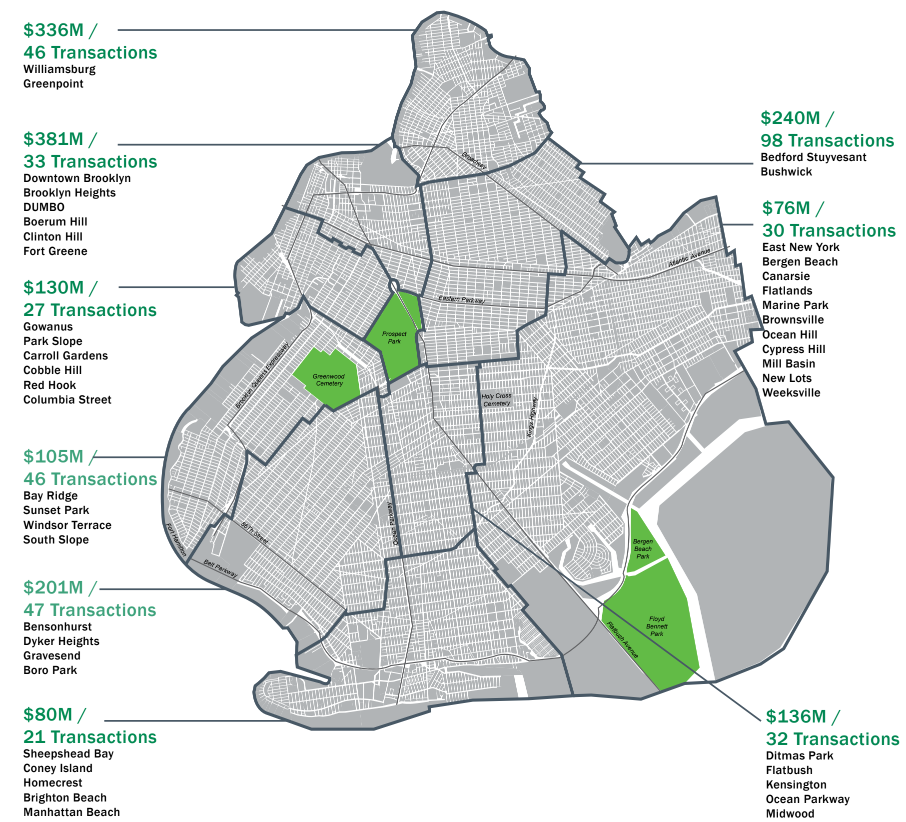
### 1Q14 Brooklyn Investments Sales Overview

During 1Q14, the Brooklyn property sales market had 374 closed transactions consisting of 492 properties sold. The number of properties sold was well above the 227 properties sold in 1Q13 and on an annualized basis is tracking 31% above 2013. This is the second best performing first quarter in the borough's history behind 1Q07, boasting an increase of over 100 percent in the number of properties sold. The aggregate sales consideration in 1Q14 was $1.67B, up 213% from 1Q13. On an annualized basis we can expect to see dollar volume finish north of $6.68B, up significantly from 2013. This was a record first quarter in dollar volume for Brooklyn.

### 1Q14 Downtown Brooklyn Investments Sales Overview

During 1Q14, the Downtown Brooklyn property sales market had 33 closed transactions consisting of 48 properties sold. In total, the dollar volume for the submarket was $381M. This is by far the best performing first quarter since the recession. At this time last year, 1Q13, Downtown Brooklyn had 12 transactions closed and the dollar volume in the market was $92M. On an annualized basis, we can expect to see records set for both turnover and dollar volume in the submarket.

### Brooklyn Dollar Volume By Territories 2013




### Downtown Brooklyn "By the Numbers" 2Q14 – Comparable Sales Data

**Multifamily**
- Through 1Q14, there were 10 multifamily transactions
- Total dollar volume for these 10 transactions was approx. $70M
- The average price per square foot: $446 PSF
- The average price per unit: $397,000

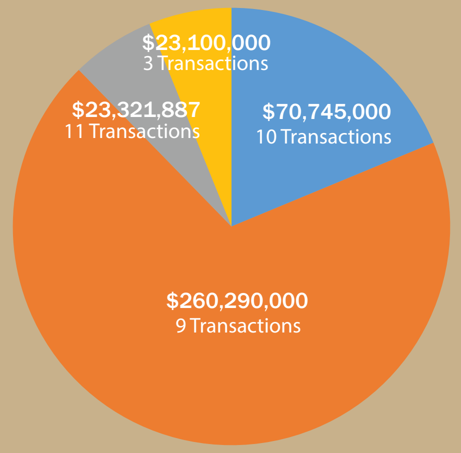
**Development**
- Through 1Q14, there were 9 development site transactions
- Total dollar volume for these 9 transactions was approx. $260M
- The average price per buildable square foot: $279 PBSF

**Retail & Mixed-Use**
- Through 1Q14, there were 11 retail/mixed-use transactions
- Total dollar volume for these 11 transactions was approx. $23M
- The average price per square foot was $479 PSF
- The average price per unit: $431,000

**Industrial**
- Through 1Q14, there were 3 industrial transactions
- The total dollar volume for these 3 transactions was approx. $23M
- The average price per square foot was $184.

### Downtown Brooklyn Commercial Property Sales By Asset Type

| | |
|---|---|
| Multifamily | 10 Transactions |
| Development | 9 Transactions |
| Retail & Mixed-Use | 11 Transactions |
| Industrial | 3 Transactions |



### Brooklyn Heights

| | Multifamily Walk-Up | Sold | Gross SF | Price/SF |
|---|---|---|---|---|
| 1 | 66 Cranberry Street | $2,825,000 | 5,000 | $565 |
| 2 | Brooklyn Law School Portfolio | $36,462,000 | 56,000 | $651 |
| 3 | 169 Columbia Heights | $60,000,000 | 78,125 | $768 |
| 4 | 25 Pierrepoint Street | $3,637,911 | 7,818 | $465 |
| | Total: | $102,924,911 | 146,943 | $700 |

### Downtown Brooklyn

| | Multifamily Walk-Up | Sold | Gross SF | Price/BSF |
|---|---|---|---|---|
| 5 | 177-181 Concord Street | $9,200,000 | 22,000 | $418.18 |
| | Total: | $9,200,000 | 22,000 | $418.18 |

| | Development / Conversion | Sold | Zoning | Lot Area |
|---|---|---|---|---|
| 6 | 156 Tillary Street | $9,300,000 | C6-4 | 5,860 |
| 7 | 420-428 Albee Square | $38,464,187 | C6-4.5 | 11,062 |
| 8 | 123-127 Livingston Street | $12,145,000 | C6-4.5/DB | 6,270 |
| 9 | 61 Bond - 270 Schermerhorn | $13,475,000 | C6-1 | 18,170 |
| 10 | 396 Flatbush Avenue Ext. | $3,450,000 | C6-4.5/DB | 1,021 |
| 11 | 434 Albee Square | $5,000,000 | C6-4.5/DB | 2,589 |
| 12 | 340 Flatbush Avenue Ext. | $43,500,000 | C6-4.5/DB | 21,474 |
| | Total: | $125,334,187 | | |

### BOERUM HILL

| | Mixed Use | Sold | Gross SF | Price/SF |
|---|---|---|---|---|
| 13 | 336 State Street | $4,900,000 | 5,525 | $886.88 |
| 14 | 348 Atlantic Avenue | $7,100,000 | 6,500 | $1,092 |
| 15 | 220 Atlantic Avenue | $2,950,000 | 3,500 | $843 |
| 16 | 420 Atlantic Avenue | $2,730,000 | 2,970 | $919 |
| 17 | 178 Hoyt Street | $960,000 | 3,750 | $256 |
| | Total: | $18,640,000 | 22,245 | $838 |

### FORT GREENE / CLINTON HILL

| | Multifamily Walk-Up | Sold | Gross SF | Price/SF |
|---|---|---|---|---|
| 18 | 291 Clinton Avenue | $2,345,384 | 4,500 | $521 |
| 19 | 220 Cumberland Street | $1,260,000 | 3,008 | $419 |
| 20 | 58 Greene Avenue | $1,776,000 | 3,760 | $472 |
| 21 | 205 St James Place | $3,950,000 | 9,136 | $432 |
| | Total: | $9,331,384 | 20,404 | $457 |

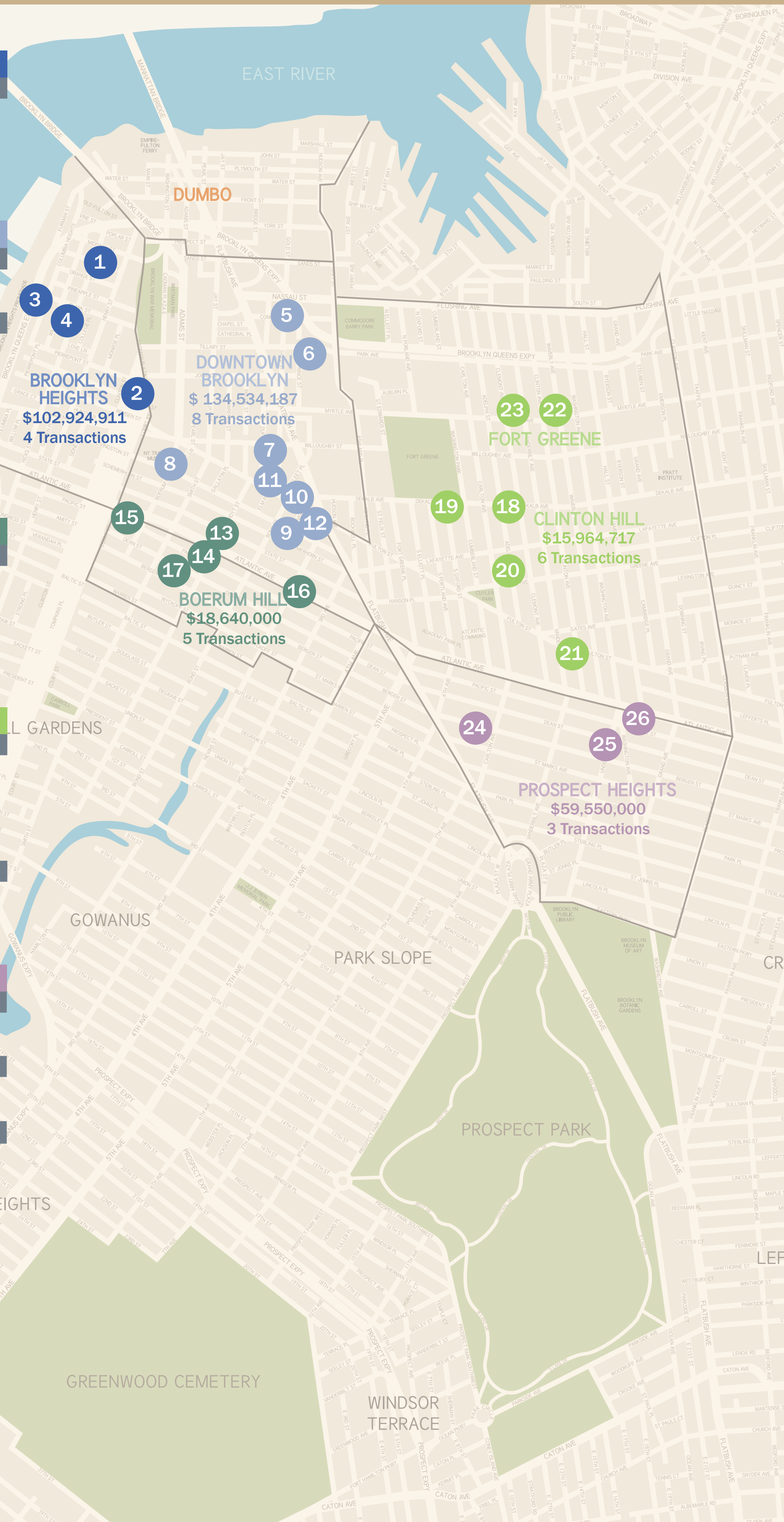
| | Mixed Use | Sold | Gross SF | Price/SF |
|---|---|---|---|---|
| 22 | 507 Myrtle Avenue | $900,000 | 3,750 | $240 |
| 23 | 386 & 584 Myrtle Avenue | $5,733,333 | 12,245 | $468 |
| | Total: | $6,633,333 | 15,995 | $415 |

### PROSPECT HEIGHTS

| | Multifamily Walk-Up | Sold | Gross SF | Price/SF |
|---|---|---|---|---|
| 24 | 536 Bergen St | $3,250,000 | 6,548 | $496 |
| | Total: | $3,250,000 | 6,548 | $496 |

| | Mixed-Use | Sold | Gross SF | Price/SF |
|---|---|---|---|---|
| 25 | 620 Washington Avenue | $1,300,000 | 2,700 | $481 |
| | Total: | $1,300,000 | 2,700 | $481 |

| | Industrial | Sold | Gross SF | Price/SF |
|---|---|---|---|---|
| 26 | 892, 908, 1050 Atlantic Avenue | $55,000,000 | 58,850 | $935 |
| | Total: | $55,000,000 | 58,850 | $935 |




## The Inequality of NYC Property Taxes

By James Nelson, Massey Knakal Realty Services

There has been a lot of concern about the ever increasing property taxes from the real estate community with New York City's new mayor, Bill de Blasio. The City's robust $70 billion budget is facing major increases from union back pay and citywide pre-kindergarten. Property taxes is one of the few places where the mayor can turn to bring in more "revenue," especially since raising income tax on high earners is unlikely with Gov. Cuomo opposing.

According to the WSJ, although de Blasio has said he is not seeking to increase the tax rate, the City's Department of Finance showed tax-assessment rolls are due to rise by 8% beginning in July, the second-highest gain since 1996. This shows the game that politicians play: they can say tax rates will not go up, but they will raise by virtue of increasing property assessments. For fiscal year 2015, the Citywide Market Value of properties increased 6.6% to $914.8 billion.

The real estate community has been the ATM for NYC's budget. Between property and transfer taxes, REBNY estimates that revenue-producing properties account for 38% of the City's budget, covering virtually every city service from the police and fire to correction agencies. The Minnesota Center for Fiscal Excellence finds that NYC commercial owners pay a ratio of almost six times what homeowners pay. The next major city, Boston, is under four.

According to a Studley report, NYC office buildings have the second highest taxes per square foot at $14.95 in 2012. Washington, DC is the highest at $15.50, which also signals concern for their market. San Francisco's taxes of $5.05/SF, make it seem like a more viable city. NYC's net rent after operational expenses was the lowest in their survey at only 50%, well below San Francisco's 65%.

Few voters may feel sorry for the wealthy landlords who pay these taxes, but they should be concerned about potential job loss. Tax increases are mostly passed along to the office and retail tenants. Office leasing brokers have said that tenants are questioning locating in NYC as they cannot budget for this unforeseen increase. NYC average building expenses can run more than the occupancy costs for office space in New Jersey.

On the residential side, real estate taxes are also hotly debated. Condo owners recently suffered a 7.4% tax increase to an average of $7,987, whereas co-ops only increased by 5.5% to $6,247. Surprisingly, single family homes only saw an increase of 3.8% to $4,598. Homes are taxed at their rent potential rather than their value. De Blasio pays $2,900 a year in taxes for his townhome valued at $1.1m.

The challenge is how to convince the voters of this inequality and concern. I have heard a very interesting idea of including the tax portion in a rent bill. Perhaps a tenant paying $2,000 for a one bedroom would grow concerned if they knew that $600 was going towards taxes. This could also get attention from a recent Class Action Lawsuit saying that minorities, who rent more than own on average, indirectly pay more taxes through rent checks than owners of condos, co-ops and single families. Maybe we have finally found a topic that tenants and landlords can agree on.

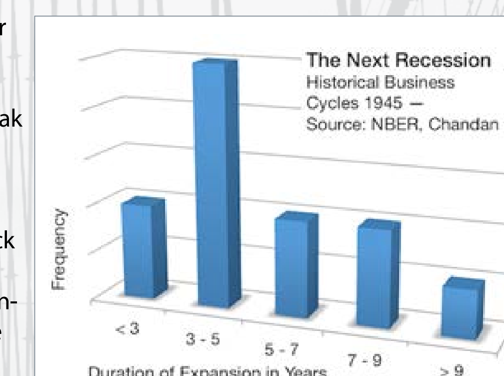
## The Next Recession

By Dr. Sam Chandan, National

Our anecdotal sense of the business cycle can diverge significantly from the formal accounting. The former often depends on sentiment and our experience in the labor market as much as aggregate economic expansion. Many Americans would balk at the notion that the Great Recession has been over for nearly five years. That is unsurprising when seen through the lens of our deeply disappointing job creation trends.

While it has taken some time, investors and consumers outside the gateways have been growing increasingly confident. We still lack national momentum in new job numbers, but rebounding home prices and record-high stock market indices are both contributing to restored wealth and more positive assessments overall. For many market participants, concerns about the next recession rank well below immediate issues such as higher interest rates. That's fair in a myopic world. Contemporaneous measures of recession probability (see Chauvet and Piger) show de minimus risks of contraction in the offing.

Economists have shown a very limited aptitude for prognosticating the business cycle far in advance of an inflexion. Nonetheless, our perception of the recovery's timing presents a challenge for investors and lenders. In the recorded history of the US business cycle, we have only one instance of an expansion lasting as long as a decade. Over the last twelve business cycles, the trough-to-peak expansion has endured for just under five years on average. Check your calendar. If the current expansion was average in its timing, it would be nearing its end. History's best case, the five-year loan you make today will get a very real-world stress test.




There is no doubt the last downturn was different, both in terms of its duration and severity. Economic expansions have also lasted longer of late. That being said, it would be imprudent to dismiss the potential for today's acquisitions and originations to mature under unfavorable economic conditions. Unless you believe this expansion will prove an outlier, history in isolation suggests the next recession is within our current five-year investment and lending window.