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## NYC Outer Boroughs Lure Hungry Developers

By **Kaitlin Ugolik**

Law360, New York (March 13, 2013, 7:17 PM ET) -- Real estate projects in New York City's outer boroughs are on the rise, both on the waterfront close to Manhattan and further inland, as residential and retail developers look to tap new tenant markets in their search for safe yet steady investments.

New York's residential real estate market has always been seen as something of a conservative "safe bet," even during much of the downturn, and experts say that as demand continues to rise for multifamily properties, developers are looking deeper and deeper into Brooklyn, Queens, the Bronx and Staten Island to find profitable properties and cheap land.

"The market for new product is incredibly active right now," Wayne Heicklen, co-chair of Pryor Cashman LLP's real estate group, told Law360 on Wednesday. "Rentals have been leading the way for a variety of reasons, and anybody who could either buy or develop new rental product is feeling very good about their upside right now."

Experts say a developer's chances of being able to buy or develop new multifamily buildings tend to increase greatly when they look beyond Manhattan, and the tendency to consider places like Williamsburg in Brooklyn and Astoria in Queens for major residential projects isn't new.

In fact, rental prices in Brooklyn are climbing fast, having risen 7.2 percent in February compared with the same period last year, according to a market report from Douglas Elliman Real Estate. The average price per square foot runs at \$35.36, according to rental website Citi Habitats.

Much of this increase can be attributed to quickly growing neighborhoods like Williamsburg and Greenpoint, experts say. And as those Manhattan commuter areas close to the waterfront become increasingly popular, rents and the price of land naturally rises, so the most savvy developers are beginning to look farther inland for new tenant markets that will absorb multifamily housing at a different price point and still make the owner a profit.

Even as the price of land in the waterfront neighborhoods rises, land in the whole of Brooklyn — currently the star outer borough in terms of real estate development — is trading at about a 65 percent discount when compared with Manhattan, while rents are only about a 20 percent discount, according to Rachel Gould of Orrick Herrington & Sutcliffe LLP.

It's a recipe for great development deals, and about 70 percent of new rental development is expected to take place in Brooklyn and Queens over the next several years, Gould said.

"Things are changing, and in order to take advantage of these huge discounts, people are

more open-minded today," she said. Developers who traditionally might focus only on Manhattan are "finally opening their eyes to it and seeing that [Brooklyn is] still very accessible," she added.

Kramer Levin Naftalis & Frankel LLP partner Jay Neveloff said he had had clients looking for projects in Red Hook, the less transit-friendly neighborhood south and west of Carroll Gardens, and Bensonhurst, a neighborhood about halfway between Greenwood Cemetery and Coney Island that "requires effort" to get to.

Some developer clients have begun to look outside the "young, hip, mobile" demographic to the millions of working-class residents in the outer four boroughs who could benefit from new housing that wouldn't make the builder a fortune but could still be a good deal, he said.

"It's a whole different spin on what the typical model is," Neveloff said. "If you get something at the right price, it makes sense."

It's a matter of need and compromise, he said. Many investors have so many capital-chasing investments but are still so cautious about taking risks that it makes sense to put their money in something like an apartment building in Brooklyn or Queens that won't have a great rate of return or capitalization rate.

It requires a bit of finger-crossing in hopes that the asset will pan out to be profitable, but there's not too much risk of failure and there's currently little competition.

"People aren't looking at [those types of properties]," Neveloff said. "They're looking at where people are hopping on a subway to get to jobs in Manhattan."

And it's not just residential developers — retail developers and national tenants are also starting to become more comfortable with the outer boroughs, according to Nina Rokat, a partner with Olshan Frome Wolosky LLP.

While residential developments "make sense" in any of the boroughs, it's much harder for national retail chains to find the types of spaces they're looking for — particularly parking lots — anywhere but the outer boroughs, Rokat said.

Brooklyn, Queens, Staten Island and parts of the Bronx are more conducive to building big retail stores and the stores are also more accepted there, and the retailers themselves have begun to better their due diligence of the demographics and customer base in these areas, she said.

"I think there is going to be a lot more activity in those areas as time progresses," Rokat said.

--Editing by Elizabeth Bowen and Sarah Golin.