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Brooklyn home market update: Volume drops, but prices hold steady



Sam Heskell

The Brooklyn residential market in the first half of 2008 showed signs of softening on par with the real estate forecast for the rest of the city. But in spite of an overall slowdown in sales volume across the board, average home prices remained steady for the most part, inching up in some areas and holding strong in others.

Because the situation was so varied across the borough, it is necessary to look at the picture neighborhood by neighborhood to get an accurate view of what is going on.

In general, the slower sales volume reflects the softer market conditions nationwide. While New York City has been more resilient in the face of a market slowdown, some effects are to be expected. Brownstone Brooklyn saw 41% fewer sales in the second quarter of 2008 compared to the second quarter of 2007, but the average home price continued to inch up; in this case it was 5% higher.

Lagging sales volume can be attributed to the reality of the nationwide credit crisis sinking in for both sellers and buyers. In many cases, properties are sitting on the market longer. Sellers are reluctant to drop prices and are still optimistic that New York properties are continuing to rise in value. But buyers, listening to headlines about gloomy economic conditions, are hedging their bets and are less willing to pay top dollar.

Recent events on Wall Street - the collapse of Lehman Brothers, the sale of Merrill Lynch, and the bail-out of AIG - will only intensify this phenomenon, causing many to speculate that the market will decline further before heading back on an upward, or stable, trajectory.

Another reason for the slowdown in volume is the stricter requirements lenders have put in place in the wake of the credit crisis. With more money down and better credit requirements, fewer buyers are qualifying for loans. But brokers and lenders are continuing to report deals being made for buyers who qualify. The bright spot in the equation is that it is a good time to buy for those who qualify with good credit and cash available.

The government's move to take control of Fannie Mae and Freddie Mac could begin to restore some confidence in the credit market and lead to lower interest rates for home mortgages. Lower rates would mean help for homeowners who are struggling with their monthly payments, and would also give a boost to potential home buyers.

While sales volume slowed for 16 representative Brooklyn neighborhoods, there were bright spots showing the Brooklyn market is still strong amid concerns about credit and overall difficult economic times. Average home prices continued to rise in desirable brownstone neighborhoods such as Brooklyn Heights, Fort Greene and Park Slope, and in up and coming or emerging neighborhoods such as Clinton Hill and Crown Heights.

In Park Slope, sales volume was boosted by closings at several of the newly constructed condominiums lining the neighborhood's current hotspot along Fourth Ave. Some of those contracts may have been signed months ago while the developments were still in the early stage of construction.

Fort Greene continued to be a strong neighborhood, with a big increase in average home prices - from \$590,000 to just over \$1 million in the second quarter of 2008 compared to a year earlier - but with slower sales volume.

Average home prices dropped 22% in Williamsburg, driven by a big decrease in sales prices of new condominiums, partially due to the vast amount of new development introduced to the neighborhood over the past few years. The good news for developers who are having difficulties selling in this challenging market is that the rental market remains very strong in most areas of Brooklyn, which could be a lifeline for developers who are willing to take their condominiums rental. Total sales volume for the neighborhood lagged by 61%.

There should be a natural, seasonal increase in sales with the arrival of fall, with closings taking place from deals that were done earlier in the spring. Despite expectations that the economy will remain soft through the end of the year, the Brooklyn market will continue to show areas of strength under the right circumstances in this more delicate market.

Sam Heskell is executive vice president of HMS Associates, Brooklyn, N.Y.