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NYC's (new) land rush: Developers play with thin margins as Manhattan land prices skyrocket

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***TRD* and others have reported on the ballooning prices for developable land in NYC. What are you seeing in terms of prices for developable land in the city today? How much are prices up (or down) compared to a year ago, two years ago and during the recession?**

The words "historical" and "trendsetting" best describe what's going on right now. Some development sites in prime areas of Manhattan have gone up 30 to 40 percent since a year ago, and many locations are starting to demand pricing that's never been seen before. Furthermore, some neighborhoods that many developers would have turned a cold shoulder to in the past are starting to get major attention because of the serious lack of inventory and incredible amount of capital on the street right now. Some of the biggest developers in the city would laugh at me when trying to pitch them a site in Gramercy for over $450 per buildable square foot in the recent past, and then Toll Brothers strolls in and closes at $750 per buildable. Granted, their recent purchase on 23rd Street has a major retail component that can justify a higher price.

What is going on in terms of trading activity for Manhattan and Brooklyn land? How much is buying activity up (or down) in the last year, two years and since the recession?

During the recession, there was very little land trading outside of Manhattan and not too much trading inside. In 2008 nobody was really interested in raw land to build on, and no bank would even look at a land acquisition or construction loan. In the last one to two years, activity has gone up significantly both in Manhattan and Brooklyn, but only in the recent past have Brooklyn's B and C neighborhoods been seeing more sales.

What is the competition like for land and other development sites in NYC, and how does it compare to the recent past?

We are seeing bidding wars on a daily basis for sites with "real sellers." We're negotiating a contract right now on a Soho loft building that the seller was happy to get $14 million for. A contract is out at $16 million and there's a backup buyer ready to go if the current buyer can't pull it off.

We know banks have started warming up to financing condos again and that high land prices have made it more difficult to pencil out rentals. What type of properties are the developers planning for most of the land they are buying?

I really don't see much being bought in Manhattan or prime Brooklyn that's being underwritten as a rental unless the buyer has a basis in the land that's lower than typical market value of the property. The rental projects being built are on bigger swaths of land that have been bought at "non-booming" prices, and many are 80/20, so they have inclusionary housing bonuses and 421a tax abatements in order to make them feasible.

Sources have said lenders might soon pull back on financing because land prices have gotten so high. Are you seeing that?

I don't necessarily see lenders pulling back on financing, but I do think things have gotten a little loose again since the crash, and banks will start getting a little more conservative once some of the guys paying high prices start getting in trouble. I have seen numerous deals that I cannot make any sense of. The only way these deals are being financed is that the developers are really betting on condo sellout prices that are higher than current comps. Hopefully they have no unexpected delays or problems, because their margins are so thin that one little thing can put your entire project under water.