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Ocean Hill, Brooklyn: What's to Come

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As the Brooklyn real estate market continues to shift east, many neighborhoods that were once overlooked by investors are beginning to hit a turning point. One of the neighborhoods that is currently finding itself in transition is Ocean Hill.

Ocean Hill is a small section of Brooklyn located just north of Brownsville and borders Bedford-Stuyvesant, Bushwick, and East New York. The neighborhood is most often referred to as a subsection of Bedford-Stuyvesant. For many years the community has been overlooked by investors; however the recent emergence of the area has begun to reverse that trend. Broadway Junction, located near Ocean Hill and one of the larger public transportation stations found in Brooklyn, provides direct access to Downtown Brooklyn and Manhattan making this a desirable neighborhood to reside.

The Ocean Hill neighborhood is largely residential. Most of the buildings found in this area are small to mid-sized multifamily properties. The recent sale of 145 Somers Street is a terrific example of how this neighborhood will begin to show increased upside for investors looking to purchase property in the fast growing Brooklyn market. 145 Somers Street is a six-family walk-up building located less than one mile from Broadway Junction. Like most properties of similar size in this area, 145 Somers Street is subject to rent stabilization. The gross rent for the building is currently \$52,213, which is far less than most six-family properties found in this area. This property was sold for \$620,000, representing an 11.9 Gross Rent Multiple. This 11.9 "GRM" exceeds the average of sales in the area in previous years. The low rent roll due to stabilization has much to do with the inflated GRM, but that number is not far off from what the Ocean Hill market is beginning to see on



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a regular basis. Looking at sales from 2003 to 2012, the average GRM in which a building sold in Ocean Hill was 7.51. In the first three quarters of 2013, the average GRM of multifamily property sales was 10.57. This clearly represents the confidence investors have in this area.

When looking at one of the most basic indications of value, price per square foot (PPSF), there has been a significant change in 2013 compared to the previous years. From 2003 to 2012, the average PPSF of sales of multifamily properties in Ocean Hill was \$114.53. In 2013, the average PPSF of multifamily buildings sold was \$127.72, which shows an approximately 11.5% increase.

The notion that property value will increase becomes even more apparent when examining the average capitalization rate in which an investor felt comfortable purchasing a building in Ocean Hill. The capitalization rate is often the most telling statistic in determining true market value for a given area. From 2003 to 2012, the average capitalization rate in which a building traded was 9.82%. Over the past year, there has been quite an extreme shift in value and future expectation for the area. In 2013, the average capitalization rate of buildings sold in Ocean Hill dropped to 6.41%. This number is most likely offset a slight degree due to the supply and demand phase in which the Ocean Hill market is currently experiencing. The lack of product in this increasingly popular area combined with the abundance of investors looking to purchase property in areas with large upside has led to an increase in sellout values and rising cap rates. Offset slightly or not, this represents a positive long-term change in the neighborhood value.

All of these measures of value indicate a far increased investment opportunity in this area going forward. True of all emerging neighborhoods, as the population in Ocean Hill grows new development and retail opportunity will follow. The sale of 145 Somers Street is a terrific example of how this process has already started, and with the Brooklyn market showing no sign of slowing down, Ocean Hill should continue its recent emergence at an even faster pace going into 2014.