

Permit plunge: End of the building boom?

Daniel Massey

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The number of residential permits issued in the city in the first quarter dropped by 46% compared with the year ago period, a sign the city's building boom is coming to an end.

The total number of permits declined to 558 from 1,038, according to figures released Thursday by the U.S. Census Bureau. All five boroughs saw significant drops, with the steepest one in the Bronx, where permits in the first three months of the year fell by 64%, to 79.

The decline follows a year in which more permits were issued citywide than in any year since 1972. Permits in Brooklyn and Queens, which reached record heights in 2007, dropped by 52% and 40% respectively in the first quarter of 2008.

When looking at permitted residential units, the number also fell 46%, to 3,893 from 7,264. The steepest drops were in Manhattan, which fell 69%, to 485 units, and Queens, which fell 62%, to 705 units. Staten Island had a 25% gain, to 238 units.

"It's harder for people to get mortgages and it's also harder for developers to get loans," says Greg Heym, chief economist at Terra Holdings, the parent of Brown Harris Stevens and Halstead Property. "When most people are anticipating the real estate market to slow, it's not surprising to see permits start to decline."

Developers point to three main reasons for the stark drop-off. The most important factor is the credit crunch, which has made it difficult for developers to finance projects.

"It's relatively impossible for a developer to get financing today unless they're the biggest of the best and have an incredibly low cost basis," says Stephen Kliegerman, executive director of development marketing at Halstead.

Also, the boom in 2007 may have been due in part to changes to the 421-a subsidy program. In order to qualify for tax abatements, developers need to have foundations in the ground by June 30. That prompted a rush for permits, which helped boost numbers last year.

Developers say the boom over the past few years has also led to a lack of available land on which to build. Owners are still expecting big payoffs for their land, holding firm on asking prices that are unrealistic in today's market.

“Sellers are still living off the expectations of a year ago,” says David Pickett, president of the Gotham Organization, a real estate development and construction company. “Buyers are dealing with the reality of a lack of liquidity.”

Other factors are contributing to hesitancy among developers. The prospect that increasing foreclosures could add stock to the housing market is giving them pause. Plus, declining home sales nationwide has caused concern. □
