

Brooklyn Office, Q1 2017

Leasing rebounds, while availability continues to rise

 Leasing Activity
.43 MSF

 Availability Rate
18.1%

 Average Asking Rent
\$37.80 PSF

 NYC Unemployment
4.4%

*Arrows indicate change from previous quarter.

- Leasing activity was strong in Q1 2017, up 48% from the previous quarter.
- DUMBO was again the most active submarket, as it continues to attract tenants to new space—including the 500,000-sq.-ft. development project Empire Stores, which has only 56,000 sq. ft. remaining.
- The quarter saw a surge in relocation activity, with three Manhattan tenants signing deals for more than 50,000 sq. ft. each. This quarter saw the 20th Manhattan tenant to relocate some or all of its operations to Brooklyn since Q3 2015, totaling 625,000 sq. ft.
- New development totaling 900,000 sq. ft. increased the availability rate by 30 basis points (bps) to 18.1%. The pipeline of future development remains robust, with nine office projects under construction. These are expected to add approximately 3.8 million sq. ft. of new inventory by 2020.

MARKET OVERVIEW

The first quarter of 2017 is off to a strong start, as leasing activity totaled 430,000 sq. ft., nearly two and a half times the volume seen in Q1 2016. There were four transactions greater than 50,000 sq. ft., three of which were with tenants migrating from Manhattan. DUMBO continues to be the most active submarket, accounting for 57% of all leasing activity this quarter. Despite strong quarterly leasing, Brooklyn’s overall availability continues to rise, as this quarter 900,000 sq. ft. of new development has now become available within 12 months of tenant build-out. The average asking rent dipped slightly across the market, to \$37.80 per sq. ft.

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address
79,500	2U Inc.	55 Prospect Street
68,000	Lafayette 148	Brooklyn Navy Yard Bldg 77
67,000	United Technologies Corporation	55 Water Street Empire Stores
50,000	Bjarke Ingels Group (BIG)	45 Main Street
25,000	Callen- Lorde Community Health Center	25 Chapel Street

Source: CBRE Research, Q1 2017.

LEASING ACTIVITY

Strong demand by a mix of creative tenants led to robust leasing activity of 430,000 sq. ft., up 48% from Q4 2016. Tenants came from a variety of sectors, including fashion and architecture, as well as several TAMI tenants, which have been the drivers of leasing activity in this market over the past several years.

The substantial leasing activity was the result of a surge in Manhattan tenant migration to the Brooklyn market, including three of the quarter's largest transactions: education-tech tenant 2U Inc. and women's clothing designer Lafayette 148,¹ both of which will be relocating from Midtown South, and architecture firm Bjarke Ingels Group (BIG), which will move from Downtown Manhattan to DUMBO. BIG marks the 20th tenant to relocate some or all of its operations from Manhattan to Brooklyn since Q3 2015, for a total of 625,000 sq. ft.

DUMBO was the hottest submarket for the second consecutive quarter, recording four of the top five largest transactions in Q1 2017, including 2U Inc.'s

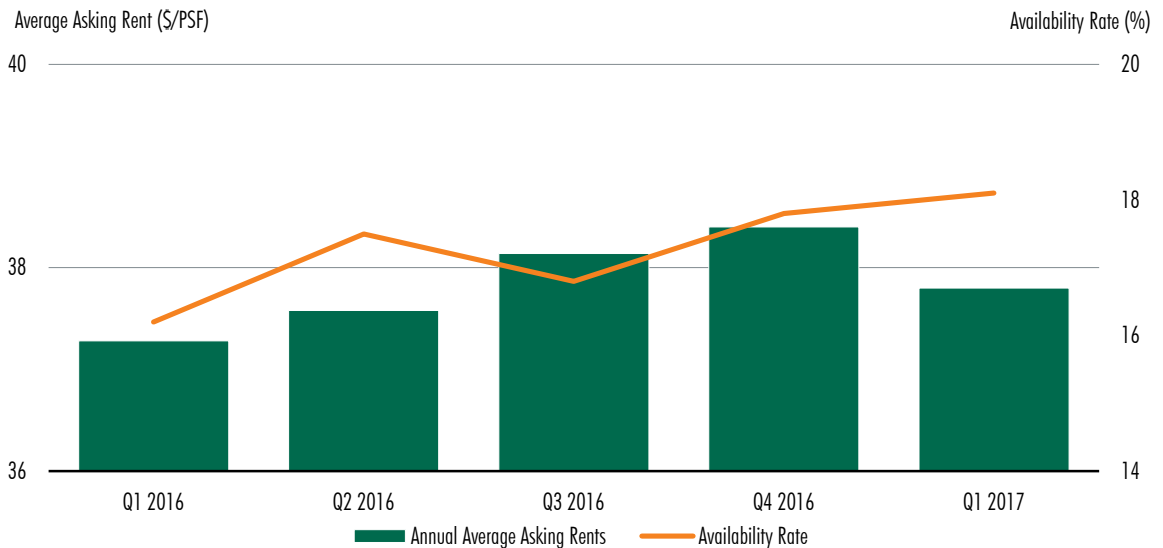
79,500-sq.-ft. lease at 55 Prospect Street in Two Trees Management's DUMBO Heights complex and BIG's 50,000-sq.-ft. lease at 45 Main Street. Other notable DUMBO transactions included technology firm United Technologies Corporation's 67,000-sq.-ft. lease at 55 Water Street (Empire Stores), and Callen-Lorde Community Health Center's 25,000-sq.-ft. lease at 25 Chapel Street (40 Flatbush Avenue Extension).

The Brooklyn Navy Yard saw 73,000 sq. ft. of leasing activity this quarter, recording the second largest transaction—Lafayette 148's lease for 68,000 sq. ft. at Building 77. Downtown Brooklyn registered 51,000 sq. ft. of leasing activity, including coworking firm Ignitia Office's 17,000-sq.-ft. lease at 1000 Dean Street.

AVAILABILITY RATE

Despite strong leasing activity, the availability rate rose 30 basis points (bps) quarter-over-quarter to 18.1% in Q1 2017. Two of the five Brooklyn submarkets—the Brooklyn Navy Yard and Williamsburg/Greenpoint—experienced rising availability this quarter.

Figure 2: Quarterly Asking Rent vs. Availability Rate



Source: CBRE Research, Q1 2017.

The Brooklyn Navy Yard’s availability was 28.2%, up 370 bps from last quarter, driven by the addition of 449,000 sq. ft. of new development at Dock 72. Similarly, Williamsburg/Greenpoint’s availability rate was up 130 bps from last quarter, due to the addition of 433,000 sq. ft. at 25 Kent Avenue, a redevelopment project by Heritage Equity Partners and Rubenstein Properties.

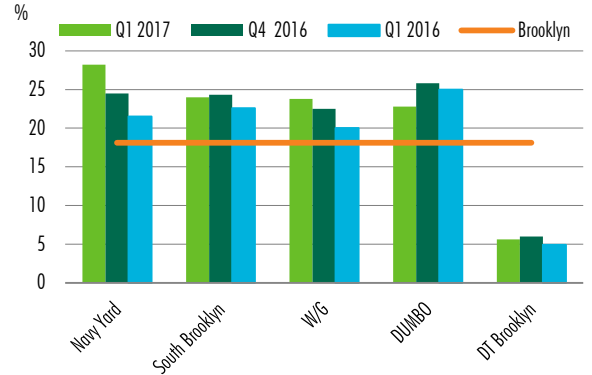
DUMBO witnessed the largest decline in availability, falling 300 bps from last quarter to 22.8%, driven by a strong quarter of leasing. Downtown Brooklyn’s 53,000 sq. ft. of leasing caused the availability rate to fall 40 bps to 5.6% in Q1 2017. South Brooklyn’s availability fell 30 bps from last quarter to 24.0%, with 53,500 sq. ft. of leasing.

Brooklyn’s overall availability rate has been on a steady rise, increasing for the third consecutive quarter and growing 190 bps from Q1 2016. Due to new development additions, there are now nine blocks of available space in the market above 250,000 sq. ft.—four blocks in South Brooklyn, three in the Brooklyn Navy Yard, and two in Williamsburg/Greenpoint.

AVERAGE ASKING RENTS

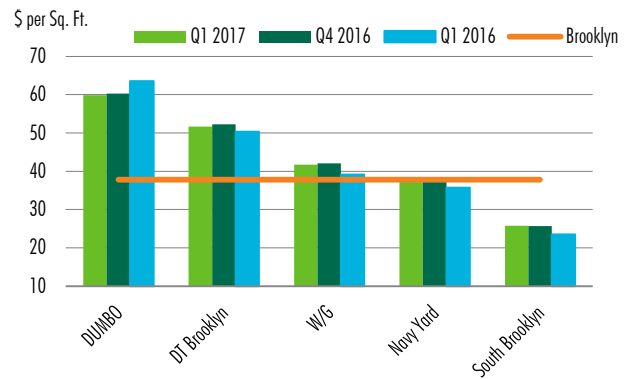
Brooklyn’s average asking rent is currently \$37.80 per sq. ft., down slightly from last quarter’s \$38.40 per sq. ft., a trend seen across all submarkets as the steady leasing of high-priced space has pulled market averages down. This was especially evident in DUMBO, where the steady lease-up of the submarket’s most expensive space has caused average asking rent to drop for a fifth consecutive quarter, to end Q1 2017 at \$59.88 per sq. ft.—dipping below the \$60 per sq. ft. mark. Major lease transactions this quarter included United Technologies Corporation’s lease at Empire Stores, where the asking rent was \$65 per sq. ft. Available space at this project, which commands the highest rents in Brooklyn, has dropped to just 56,000 sq. ft. within the overall 500,000-sq.-ft. development.

Figure 3: Availability Rate | By Submarket



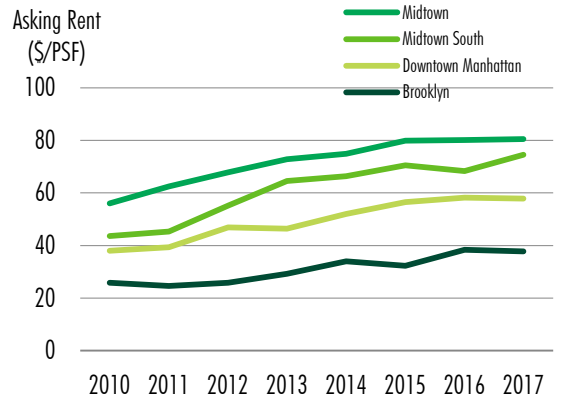
Source: CBRE Research, Q1 2017.

Figure 4: Average Asking Rents | By Submarket



Source: CBRE Research, Q1 2017.

Figure 5: Average Asking Rent Comparison



Source: CBRE Research, Q1 2017.

The Brooklyn Navy Yard’s average asking rent was down slightly from last quarter to \$37.82 per sq. ft., driven by the Lafayette 148 lease transaction, where the asking rent was \$45 per sq. ft. Downtown Brooklyn saw a modest decrease quarter-over-quarter to \$51.66 per sq. ft. Williamsburg/Greenpoint and South Brooklyn were essentially flat quarter-over-quarter, ending at \$41.71 and \$25.75 per sq. ft., respectively.

OTHER MARKET NEWS

The first quarter included several notable investment sales transactions. A partnership led by Acuity Capital Partners purchased a six-story office building in Williamsburg at 185 Marcy Avenue for \$30 million, with plans to reposition the property.² In Downtown Brooklyn, Meadow Partners purchased 57-63 Willoughby Street from Helen Keller Services for the Blind for \$54 million. The property was sold with more than 100,000 sq. ft. of unused development rights.

Additionally, Kushner Companies, RFR Realty and LIVWRK are buying out majority owner Invesco in four of the buildings in the DUMBO Heights complex for a reported \$600 million. The fifth building, 175 Pearl Street, was sold for \$100 million to Normandy Real Estate Partners, which will hold a majority stake in the property, while Kushner Companies, RFR Realty and LIVWRK will move into a single-digit minority position.

In terms of new development, 900,000 sq. ft. fell within 12 months of tenant build-out this quarter, and the pipeline of future development remains robust. There are currently nine office development projects under construction in Brooklyn, which are expected to add about 3.8 million sq. ft. of new inventory by 2020. Additionally, there are seven other projects in various stages of development.

JDS Development and the Chetrit Group have moved one step closer to their planned mega-tower at 9 Dekalb Avenue in Downtown Brooklyn, securing a \$135 million loan from the Bank of the Ozarks and Melody Finance. The mixed-use tower is slated to feature more than 400 market-rate apartments and reach as high as 1,066 feet, which would make it the tallest tower in Brooklyn.

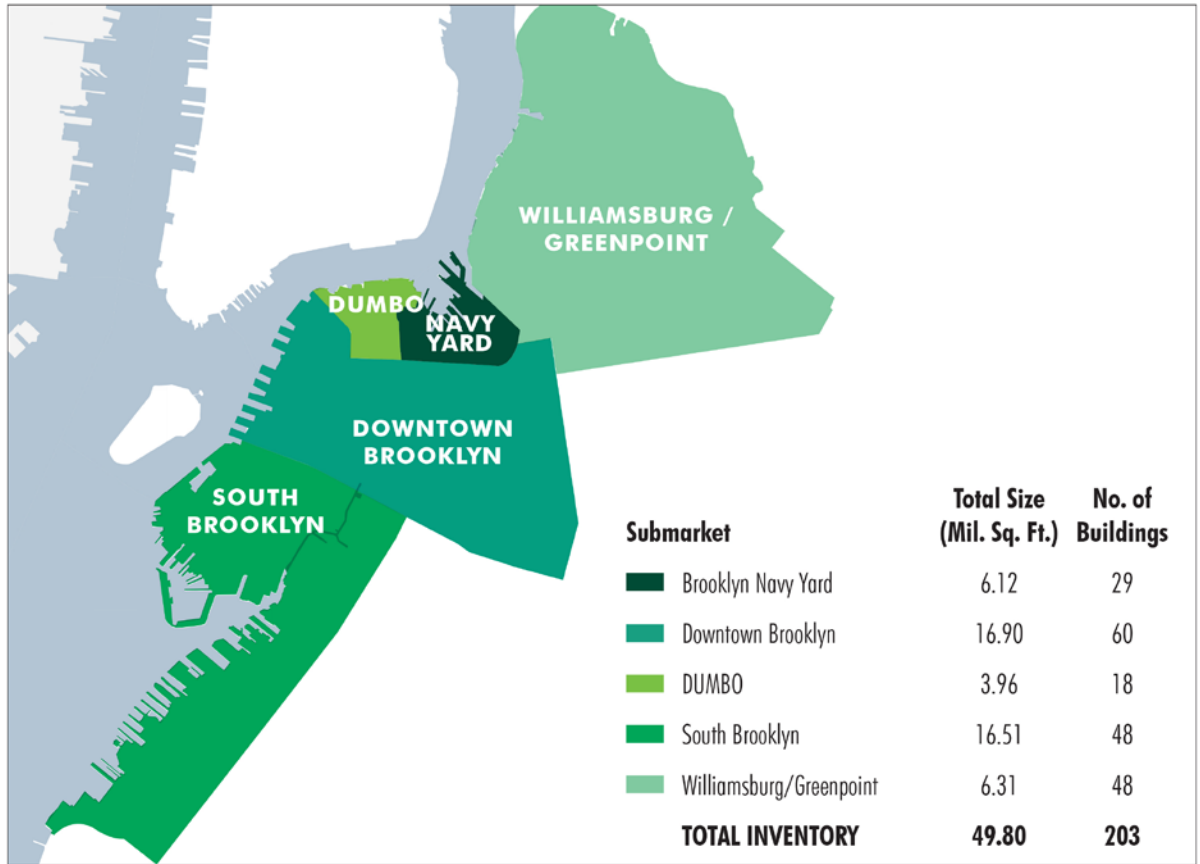
In Williamsburg/Greenpoint, “The Box Factory” at 1519 Decatur Street, a partnership between Hornig Capital Partners and Brickman Real Estate, will open in June 2017. The redevelopment project will boast 63,000 sq. ft. of office and 7,300 sq. ft. of retail space spanning three floors. In South Brooklyn, the City of New York is planning to invest \$136 million to renovate two buildings at Bush Terminal, creating a campus that is slated to feature a 100,000-sq.-ft. film and television production studio and a 200,000-sq.-ft. garment production space. The plan outlined by Mayor Bill DeBlasio will aim to create around 1,800 jobs.²

Figure 6: Brooklyn Development | Under Construction

Address	Total RSF	Submarket	Estimate Delivery Date
25-30 Columbia Heights	730,000	DUMBO	2019
Red Hoek Point (2 buildings)	700,000	South Brooklyn	2018
Domino Sugar Refinery (2-3 buildings)	600,000	Williamsburg/Greenpoint	2020
422 Fulton Street (Macy's)	600,000	DT Brooklyn	2018
Brooklyn Generator 25 Kent Avenue	450,000	Williamsburg/Greenpoint	2018
420 Albee Square	400,000	Downtown Brooklyn	2018
340 Flatbush Avenue Extension / 9 Dekalb Avenue	150,000	Downtown Brooklyn	2019
Brooklyn Navy Yard, Admiral's Row	125,000	Brooklyn Navy Yard	2018
314 Scholes Street	83,000	Williamsburg/Greenpoint	2018

Source: CBRE Research, Q1 2017

INVENTORY AT A GLANCE



SURVEY CRITERIA

CBRE’s Brooklyn market report analyzes buildings that total at least 35,000 rentable square feet of office or light manufacturing use.

Sources

1. Lafayette 148 will be moving some, but not all, of its operations to Brooklyn; teams moving include design, sales, marketing, merchandising, retail and e-commerce
2. <http://www1.nyc.gov/office-of-the-mayor/news/084-17/state-the-city-mayor-de-blasio-creates-made-ny-manufacturing-campus-bush-terminal-in#/0>

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