

Brooklyn Office, Q2 2017

Market holds steady amid slow leasing activity

Leasing Activity
▼ .23 MSF

Availability Rate
▼ 17.89%

Average Asking Rent
▼ \$37.73 PSF

BK Unemployment
▼ 4.3%

*Arrows indicate change from previous quarter.

- Leasing activity was 226,000 sq. ft. in Q2 2017, down 47% from last quarter and 25% year-over-year.
- There are currently nine office projects under construction in the Brooklyn market, which are expected to add approximately 3.9 million sq. ft. of new inventory by 2020. Additionally, there are six other projects in various stages of pre-construction.
- In May, the New York City Economic Development Corporation announced a plan for catalyzing office development in emerging business districts. The plan calls for City agencies to serve as anchor tenants for new developments in neighborhoods that have demand for more office space but that face challenges attracting a suitable anchor. The effort will begin with the issuance of an RFP for development in East New York, with the City's Human Resources Administration (HRA) serving as anchor for one or more projects. Future efforts will focus on Downtown Brooklyn, among other neighborhoods throughout the city.
- On June 29, 2017, the New York State legislature and governor enacted an extension of several location incentive programs for the city's outer boroughs, which had been set to expire at the end of the month. These incentives, including the Commercial Expansion Program (CEP), the Energy Cost Savings Program (ECSP) and the Relocation Assistance Program (REAP), have been extended through July 1, 2020.

MARKET OVERVIEW

After a strong first quarter, Brooklyn quieted down in Q2 2017. Leasing activity was just 226,000 sq. ft.,¹ down 47% from the previous quarter and 25% below the 2016 total. Despite the slowdown in leasing activity, the market saw positive net absorption of approximately 125,000 sq. ft., as little product was added.

Figure 1: Top Lease Transactions

Size (Sq. Ft.)	Tenant	Address	Submarket
78,000	ABC Carpet and Home	Industry City Buildings 19-20	South Brooklyn
26,964	Gimlet Media	41 Flatbush Avenue	Downtown Brooklyn
12,882	HealthFirst, Inc.	16 Court Street	Downtown Brooklyn
9,900	Mission Media NY	45 Main Street	DUMBO
5,300	Legal Aid Society	111 Livingston Street	Downtown Brooklyn

Source: CBRE Research, Q2 2017.

LEASING ACTIVITY

Overall leasing activity was slow in the second quarter. DUMBO, which had seen more than 400,000 sq. ft. of transactions in the two prior quarters, was especially quiet, with just 20,700 sq. ft. of transactions. The Navy Yard also experienced a dearth of activity, with approximately 9,000 sq. ft. Meanwhile, a handful of small transactions led to a strong quarter of leasing for Downtown Brooklyn, which saw just over 100,000 sq. ft. of transactions—the best quarter since Q4 2015. South Brooklyn also had a solid leasing total, thanks to ABC Carpet and Home’s 78,000-sq.-ft. deal at Industry City—the largest transaction of Q2 2017.

Additionally, two of the quarter’s largest transactions involved co-working tenants, and both occurred in buildings not captured in CBRE’s statistical set. The larger of the two was The Yard’s lease for nearly 33,500 sq. ft. at 195 Broadway (which falls within the boundaries of the Williamsburg/Greenpoint submarket), and the other a 17,000-sq.-ft. lease by Knotel at 514 Union

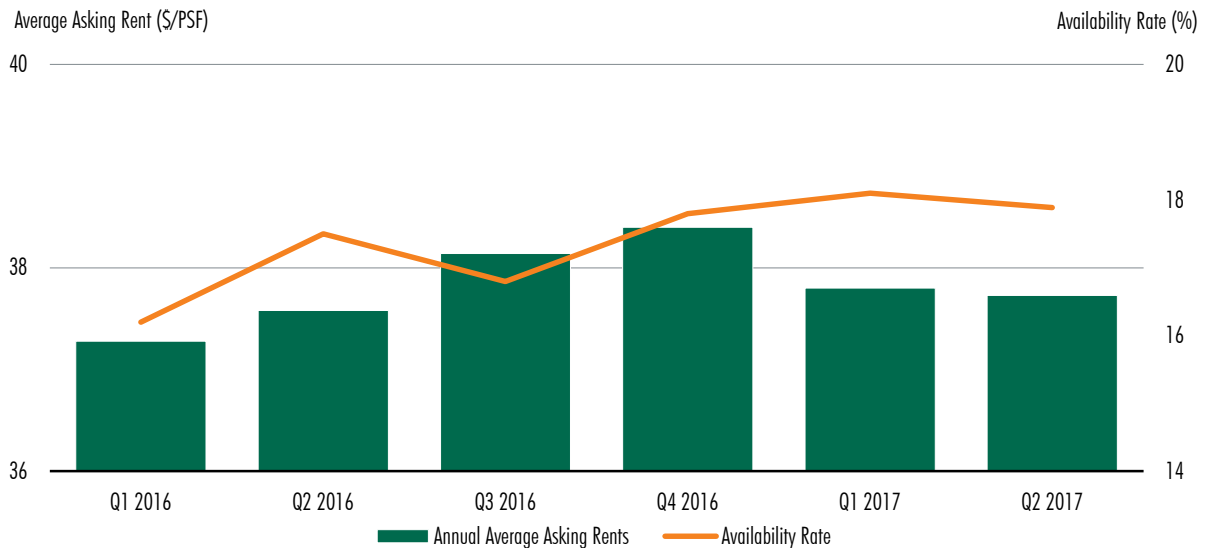
Street (which would be part of the South Brooklyn submarket). These two transactions bring the total tally of co-working and shared office space locations in Brooklyn to 756,000 sq. ft. among 17 buildings.

AVAILABILITY RATE

At 17.9%, the overall availability rate was nearly unchanged quarter-over-quarter, falling just 20 basis points (bps). The rate has been between 17.8% and 18.1% over the past three quarters. While the availability rate for the overall market remains relatively stable, the DUMBO submarket experienced a dip of 70 bps, dropping to 22.1%, the third consecutive quarterly decline. Meanwhile, Downtown Brooklyn, which has the lowest availability rate in the borough, saw a notable change as well—falling 40 bps to 5.2%.

Availability remains highest in the Brooklyn Navy Yard, where the rate stands at 28%, while South Brooklyn and Williamsburg/Greenpoint each have rates of nearly 24%.

Figure 2: Quarterly Asking Rent vs. Availability Rate



Source: CBRE Research, Q2 2017.

While leasing activity was slow this quarter, the availability rate held steady due to limited additions of newly available space. The largest was nearly 39,000 sq. ft. at Industry City in South Brooklyn, while an additional block of 20,800 sq. ft. is being offered at 2 Hanson Place in Downtown Brooklyn, via sublet by Bank of New York Mellon.

AVERAGE ASKING RENTS

Brooklyn’s overall average asking rent is currently \$37.73 per sq. ft., virtually unchanged from last quarter’s \$37.80 per sq. ft. Steady pricing was seen across nearly all submarkets, where average asking rents logged a variation of less than 1% quarter-over-quarter.

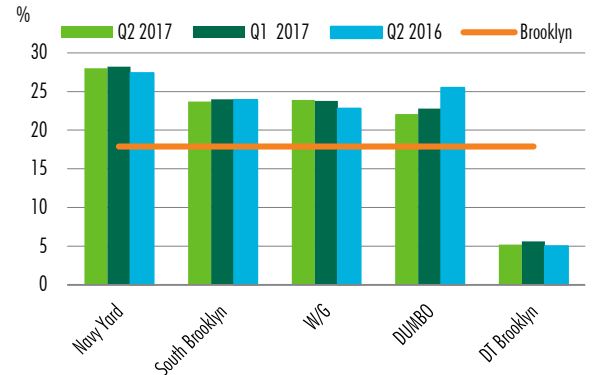
Average pricing has been fairly stable in the overall Brooklyn market year-over-year, rising little from the \$37.58 per sq. ft. seen in Q2 2016.

DEVELOPMENT PIPELINE UPDATE

The Brooklyn office development pipeline remains robust. There are currently nine projects under construction in the Brooklyn market, which are expected to add approximately 3.9 million sq. ft. of new office inventory by 2020. Additionally, there are some six other projects in various stages of development.

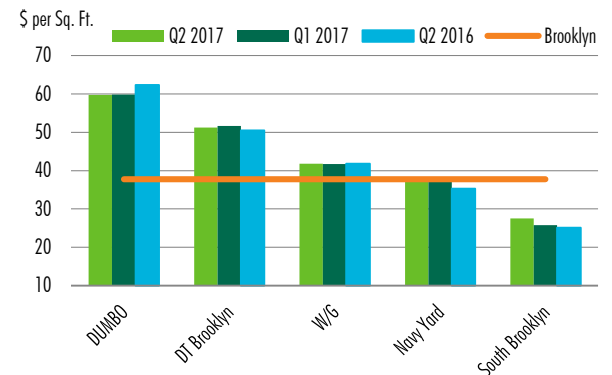
Site work recently began on Red Hoek Point, a 795,000-sq.-ft. development at 280 Richards Street within the Erie Basin on the Brooklyn waterfront. The two-building, 7.7-acre campus, which is being developed by Thor Equities, is designed by Foster + Partners and SCAPE landscape architects. It will offer floorplates of nearly 125,000 sq. ft. and incorporate numerous amenities, such as immense open spaces that include a total of 3.6 acres of usable green rooftops, as well as a kayak launch, car and valet bike parking, and a waterfront restaurant. The project is expected to deliver by 2020.

Figure 3: Availability Rate | By Submarket



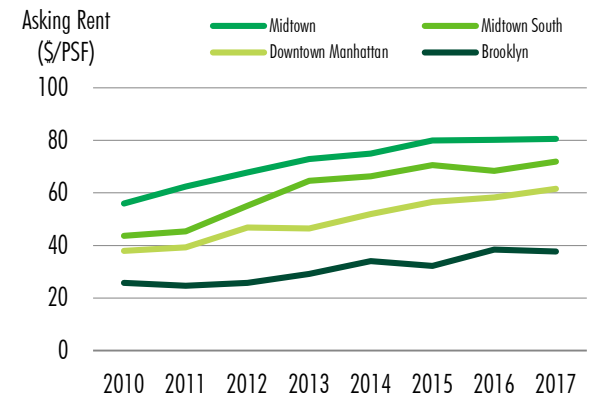
Source: CBRE Research, Q2 2017.

Figure 4: Average Asking Rents | By Submarket



Source: CBRE Research, Q2 2017.

Figure 5: Average Asking Rent Comparison



Source: CBRE Research, Q2 2017.

Figure 6: Brooklyn Development | Under Construction

Address	Submarket	Estimate Delivery Date	Total RSF
25-30 Columbia Heights	DUMBO	2019	730,000
Red Hoek Point (2 buildings)	South Brooklyn	2019	750,000
Domino Sugar Refinery (2-3 buildings)	Williamsburg/Greenpoint	2020	600,000
422 Fulton Street (Macy's)	DT Brooklyn	2018	600,000
Brooklyn Generator 25 Kent Avenue	Williamsburg/Greenpoint	2018	450,000
420 Albee Square	Downtown Brooklyn	2018	400,000
340 Flatbush Avenue Extension / 9 Dekalb Avenue	Downtown Brooklyn	2019	150,000
Brooklyn Navy Yard, Admiral's Row	Brooklyn Navy Yard	2018	125,000
314 Scholes Street	Williamsburg/Greenpoint	2018	83,000
Total			3,888,000

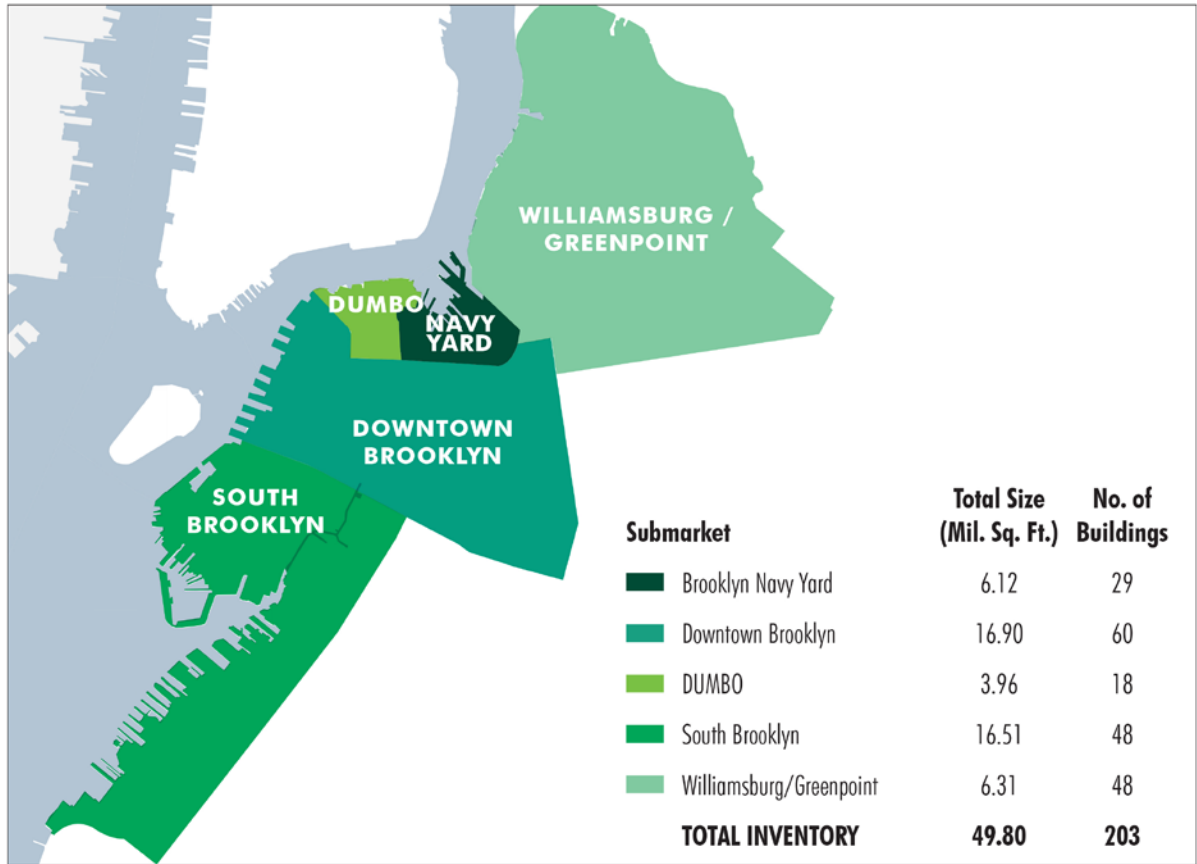
Source: CBRE Research, Q2 2017



Red Hoek Point, rendering.

Source: Visual House New York via Curbed.com New York.

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.

Notes & Sources

1. This figure includes new leases in buildings within CBRE’s statistical set. This quarter, at least two notable transactions occurred outside of the statistical set—at 195 Broadway and 514 Union Street—and thus were not included in the quarterly leasing total.
2. There is 750,000 sq. ft. for office use in the 795,000 sq. ft. development.

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