

Quarterly Office Outlook

# Capital markets remain active, leasing begins to pick up in the outer boroughs

## Brooklyn / Long Island City Overview

The outer boroughs of Brooklyn and Long Island City had an active first quarter of 2017. Capital markets and development activity remained strong, while leasing began to show signs of where demand might come from for the 4.7 million square feet of office product currently under construction in the outer boroughs.

In Brooklyn, the five largest leases of the quarter all represented net new demand for the borough. Three of the top five came out of Manhattan, while the other two represented inward migration from out of state.

In Queens, construction began on Related’s “The Point.” VaynerMedia signed the project’s first lease at the Blanchard Building. Based out of 10 Hudson Yards, VaynerMedia will open a 43,000-square-foot production studio once the 220,000-square-foot Blanchard Building delivers later this year.

### Leasing

In the largest Brooklyn lease of the quarter, education technology firm 2U signed a lease for 79,500 square feet at 55 Prospect Street in the DUMBO section of the borough. The firm relocated and expanded from roughly 20,000 square feet at Chelsea Piers. United Technologies Corporation and Bjarke Ingels Group (BIG) also signed new leases in DUMBO for 67,000 square feet at Empire Stores and 50,000 square feet at 45 Main Street, respectively. BIG relocated from Lower Manhattan, while United Technologies Corporation will create 250 jobs in Brooklyn and receive \$10 million in state tax credits.

Also in Brooklyn, Lafayette 148 signed a lease for 67,511 square feet at the Brooklyn Navy Yard’s Building 77. The apparel retailer will retain a concept store at its original location, of 148 Lafayette Street in the Midtown South section of Manhattan.

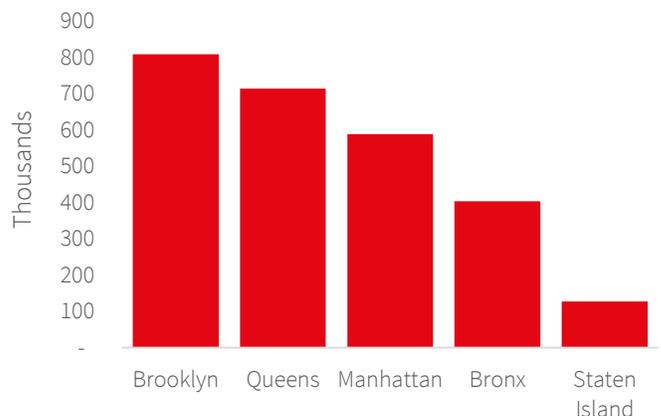
The Metropolitan Transportation Authority (MTA) and the Human Resources Administration both signed large leases at 33-00 Northern Boulevard in Long Island City. The MTA lease

of 152,000 square feet represents an expansion of 17,000 square feet in the building. The Human Resources Administration renewed in place for approximately 150,000 square feet.

This activity highlights the tenant profile that is driving demand in the outer boroughs. In Brooklyn, the range of industries that were active in the first quarter included retail, high-tech, architecture and coworking. These creative sectors are drawn to the vast talent pool offered in Brooklyn, as well as the borough’s unique culture. The lease signings in new product in areas like DUMBO provide evidence that parts of Brooklyn are no longer seen as low-cost alternatives to Manhattan. The value in Brooklyn lies in its authenticity and its strong demographic profile.

With asking rents that represent a 32 percent discount to hot areas such as DUMBO, parts of Long Island City are still favorable to occupiers in price-sensitive industries. For this reason, public sector firms signed the two largest leases of the quarter. VaynerMedia’s 43,000-square-foot lease at the Blanchard Building hints that creative firms are also beginning to view Long Island City as a viable option as the area begins to develop into a mixed-use neighborhood.

Population age 25–44 by borough



**As the city reaches full employment and the race for talent is amplified, strong demographics—specifically, a young, highly educated population—should continue to drive occupier activity toward Brooklyn and Long Island City.**

### Capital Markets

Capital markets activity in the outer boroughs continued its strong pace in the beginning of the year. In the largest transaction of the quarter, Kushner Companies, RFR Realty and LIVWRK purchased Invesco's share in four of the five buildings that constitute the Dumbo Heights portfolio in a transaction valuing the buildings at approximately \$541 million. The partnership sold the fifth Dumbo Heights building, 175 Pearl Street, for approximately \$100 million to Normandy Real Estate Partners. The 1.0-million-square-foot portfolio was originally acquired for \$240 million in October 2013.

In Long Island City, Metropolitan Realty Associates and TIAA have purchased the 256,000-square-foot Matsil Bros. building at 48-49 35th Street for \$55 million. The industrial building sits just one block away from the Hub LIC, which Metropolitan Realty Associates and TIAA purchased for \$89 million last year and are investing more than \$10 million in its renovations. Sources say ownership will maintain industrial uses in the Matsil Bros. building as redevelopments of existing industrial assets in the area have created limited options for local industrial users.

Also in Long Island City, H&R Real Estate Investment Trust secured \$250 million to refinance 2 Gotham Center, a 662,000-square-foot office building fully leased to the New York City Department of Health and Mental Hygiene. The financing was provided by Northwestern Mutual Life Insurance Company, Great-West Life Assurance Company; and Canada Life Financial Corporation.

### Development

In less traditional development news, New York City is spending \$136 million to create a 300,000-square-foot "Made in New York" facility. Located in the Sunset Park section of Brooklyn, the facility will include a 100,000-square-foot film and TV production studio and a 200,000-square-foot manufacturing center for the local garment industry. The facility, expected to open in 2020, will create 1,500 permanent jobs and 800 construction jobs, according to Mayor Bill de Blasio.

A joint venture of Quinlan Development Group and Building and Land Technology secured \$132 million in financing from KKR for the office conversion of 41 Flatbush Avenue in Downtown Brooklyn. The partnership purchased the storage facility for \$90 million in 2015 and expects to deliver the renovated 243,000-square-foot office building later this year.

Tishman Speyer recently revealed plans for "The Wheeler", a 10-story, 620,000-square-foot office addition to the Macy's building in Downtown Brooklyn. According to the press release, the building will boast Brooklyn's largest floorplate, 16-foot ceilings, a dedicated amenity floor, and an acre of outdoor space across terraces and roof decks. The project is expected to deliver in 2019 and has yet to secure a tenant.

### Outlook

Recent activity by creative firms out of Manhattan provides anecdotal evidence that Brooklyn and Long Island City are well positioned for increased office leasing activity in the coming quarters. As New York City reaches full employment and the race for talent is amplified, strong demographics and a young, highly educated population should continue to drive occupier activity towards these boroughs.



## Long Island City

Inventory: 8,135,468 s.f.  
Vacancy rate: 18.6%  
Rental rate: \$40.58 p.s.f.



Known for its Class A traditional office towers in the Court Square area, industrial redevelopments abound in the vicinity of Sunnyside Yard.

## Williamsburg

Inventory: 912,555 s.f.  
Vacancy rate: 43.4%  
Rental rate: \$59.83 p.s.f.



Predominantly residential market with expanding commercial inventory; significant forthcoming ground-up development; tenants interested in live/work/play potential.

## Flushing Avenue Corridor

Inventory: 6,062,188 s.f.  
Vacancy rate: 28.6%  
Rental rate: \$46.39 p.s.f.



Includes the Brooklyn Navy Yard and the area alongside Flushing Avenue to the east; represents enormous potential for future growth, including ground-up development and redevelopment projects.

## DUMBO

Inventory: 3,242,369 s.f.  
Vacancy rate: 28.8%  
Rental rate: \$59.93 p.s.f.



An amenity-driven location; features the Dumbo Heights office complex and offers the market's leading Brick & Beam inventory.

## Downtown Brooklyn

Inventory: 12,449,162 s.f.  
Vacancy rate: 6.4%  
Rental rate: \$50.14 p.s.f.



Features traditional office product; shaped and driven by the public transportation corridor running from the Brooklyn Bridge to Atlantic Terminal.

## Atlantic Avenue Corridor

Inventory: 1,094,600 s.f.  
Vacancy rate: 19.8%  
Rental rate: \$42.68 p.s.f.



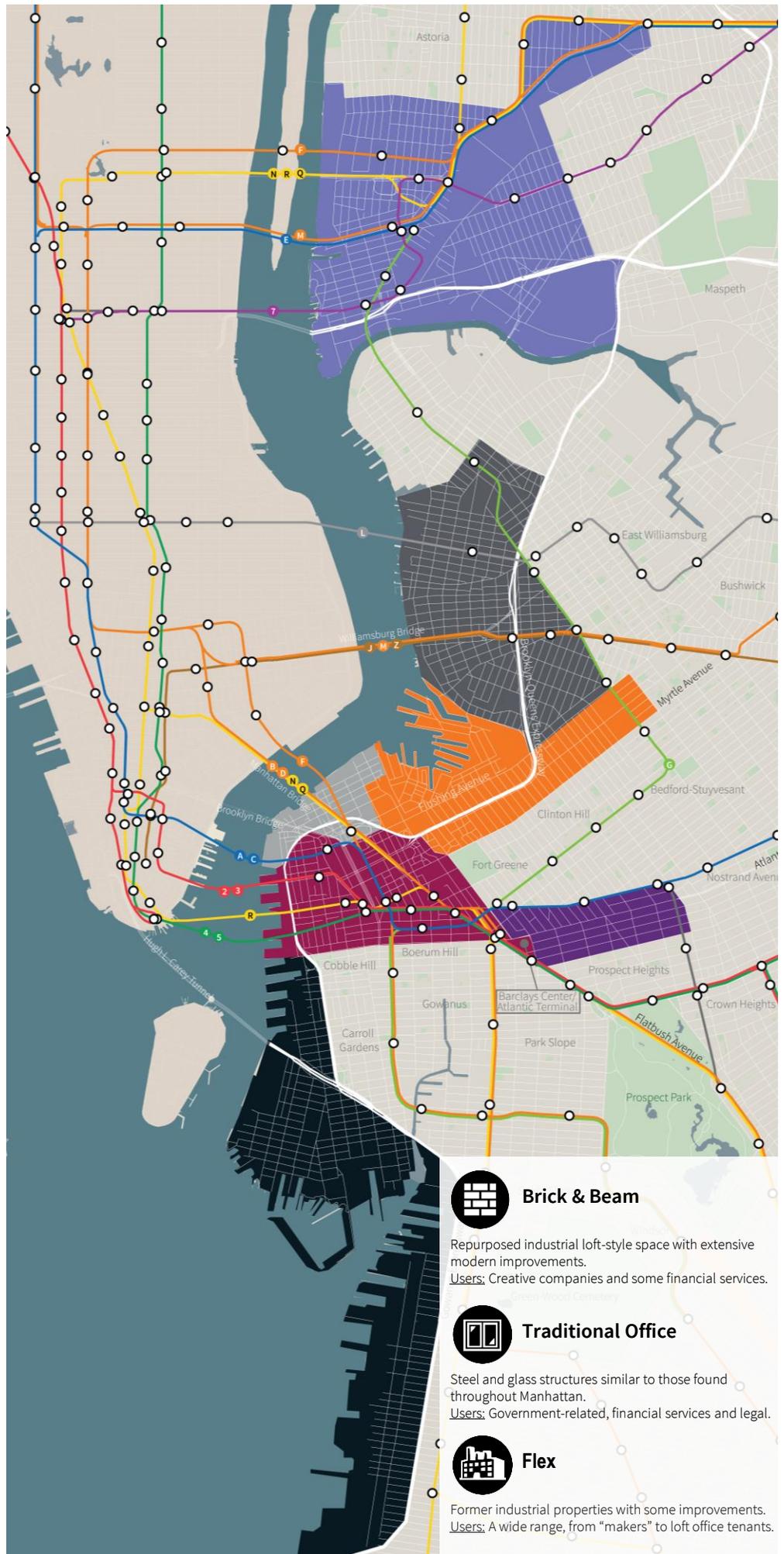
A strong prospect for future growth; accessible by public transportation and close to neighborhoods with a strong employee base.

## South Brooklyn Waterfront

Inventory: 12,101,503 s.f.  
Vacancy rate: 20.5%  
Rental rate: \$25.53 p.s.f.



Led by Industry City; has an enormous volume of flex space with additional opportunity for growth in Red Hook.



### Brick & Beam

Repurposed industrial loft-style space with extensive modern improvements.  
Users: Creative companies and some financial services.



### Traditional Office

Steel and glass structures similar to those found throughout Manhattan.  
Users: Government-related, financial services and legal.



### Flex

Former industrial properties with some improvements.  
Users: A wide range, from "makers" to loft office tenants.

# Brooklyn / Long Island City space statistics

	Current inventory (SF)	Under construction / renovation (SF)	YTD completions (SF)	Direct vacancy	Sublease vacancy	Overall vacancy	Direct asking rent (gross \$ PSF)	Sublease asking rent (gross \$ PSF)	Overall asking rent (gross \$ PSF)
<b>Brick &amp; Beam</b>									
Atlantic Avenue Corridor	57,100	57,100	0	84.6%	0.0%	84.6%	\$48.00	\$0.00	\$48.00
Downtown Brooklyn	242,992	242,992	0	100.0%	0.0%	100.0%	\$55.00	\$0.00	\$55.00
DUMBO	3,242,369	290,623	0	28.2%	0.7%	28.8%	\$60.23	\$43.64	\$59.93
Flushing Avenue Corridor	0	675,000	0	0.0%	0.0%	0.0%	\$0.00	\$0.00	\$0.00
South Brooklyn Waterfront	111,565	0	0	57.8%	0.0%	57.8%	\$41.29	\$0.00	\$41.29
Williamsburg	820,305	629,197	0	45.6%	0.0%	45.6%	\$60.00	\$0.00	\$60.00
Long Island City	350,000	350,000	0	80.4%	0.0%	80.4%	\$57.00	\$0.00	\$57.00
<b>Brick &amp; Beam total</b>	<b>4,824,331</b>	<b>1,894,912</b>	<b>0</b>	<b>39.9%</b>	<b>0.4%</b>	<b>40.3%</b>	<b>\$58.22</b>	<b>\$43.64</b>	<b>\$58.08</b>
<b>Traditional Office</b>									
Atlantic Avenue Corridor	180,000	180,000	0	36.5%	0.0%	36.5%	\$0.00	\$0.00	\$0.00
Downtown Brooklyn	12,206,170	500,000	0	4.2%	0.3%	4.5%	\$47.92	\$49.00	\$48.00
Williamsburg	92,250	0	0	24.3%	0.0%	24.3%	\$57.00	\$0.00	\$57.00
Long Island City	4,475,546	359,400	0	5.0%	6.0%	11.0%	\$44.02	\$37.38	\$40.39
<b>Traditional Office total</b>	<b>16,953,966</b>	<b>1,039,400</b>	<b>0</b>	<b>4.9%</b>	<b>1.8%</b>	<b>6.7%</b>	<b>\$47.04</b>	<b>\$38.91</b>	<b>\$44.68</b>
<b>Flex</b>									
Atlantic Avenue Corridor	857,500	0	0	12.0%	0.0%	12.0%	\$40.19	\$0.00	\$40.19
Flushing Avenue Corridor	6,062,188	1,427,000	0	24.6%	4.0%	28.6%	\$46.39	\$0.00	\$46.39
South Brooklyn Waterfront	11,989,938	0	0	19.5%	0.6%	20.2%	\$25.07	\$28.00	\$25.10
Long Island City	3,309,922	0	0	21.9%	0.4%	22.3%	\$38.54	\$29.00	\$38.36
<b>Flex total</b>	<b>22,219,548</b>	<b>1,427,000</b>	<b>0</b>	<b>21.0%</b>	<b>1.5%</b>	<b>22.5%</b>	<b>\$33.61</b>	<b>\$28.36</b>	<b>\$33.56</b>
<b>Total</b>									
Atlantic Avenue Corridor	1,094,600	237,100	0	19.8%	0.0%	19.8%	\$42.68	\$0.00	\$42.68
Downtown Brooklyn	12,449,162	742,992	0	6.1%	0.3%	6.4%	\$50.20	\$49.00	\$50.14
DUMBO	3,242,369	290,623	0	28.2%	0.7%	28.8%	\$60.23	\$43.64	\$59.93
Flushing Avenue Corridor	6,062,188	2,102,000	0	24.6%	4.0%	28.6%	\$46.39	\$0.00	\$46.39
South Brooklyn Waterfront	12,101,503	0	0	19.9%	0.6%	20.5%	\$25.51	\$28.00	\$25.53
Williamsburg	912,555	629,197	0	43.4%	0.0%	43.4%	\$59.83	\$0.00	\$59.83
Long Island City	8,135,468	709,400	0	15.1%	3.5%	18.6%	\$41.54	\$36.98	\$40.58
<b>Brooklyn / L.I.C. total</b>	<b>43,997,845</b>	<b>4,711,312</b>	<b>0</b>	<b>16.8%</b>	<b>1.5%</b>	<b>18.3%</b>	<b>\$41.31</b>	<b>\$38.05</b>	<b>\$41.15</b>

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