

Quarterly Office Outlook

As new product begins to deliver, higher-priced space is comprising a growing share of availability

Brooklyn / Long Island City overview

After an active first quarter in both leasing and capital markets, activity slowed somewhat in the outer boroughs in the second quarter of the year. A large development pipeline continues to be the main story in the outer boroughs, with close to 4 million square feet expected to deliver in the next two years, representing roughly 10 percent of the current market.

Some projects, such as Building 77 at the Brooklyn Navy Yard, have begun to deliver. The performance of these assets in the second half of the year will serve as a bellwether of future deliveries. Creative tenants, which make up the majority of office demand in the outer boroughs, have been significantly less likely to prelease space than their traditional FIRE sector counterparts.

While, at first glance, submarkets such as DUMBO and Williamsburg have staggering vacancy rates, a deeper dive into the numbers reveals a dichotomy between older and newer buildings. Projects under construction or that have delivered since 2015 currently have a 49.1 percent vacancy rate, while the vacancy rate of assets constructed pre-2015 is just 11.8 percent. From 2015 to present, those newer assets accounted for roughly 44 percent of total leasing activity in the market—an impressive number considering such product represents just 16 percent of the total market of Brooklyn and Long Island City. For this reason, increased leasing activity is expected in these new developments over the next 18 months.

Leasing

Leases continued to trickle in during the second quarter of 2017, albeit at a slower pace than in the first quarter. Larger commitments will be necessary in the coming quarters to support a development pipeline that is only 15 percent preleased.

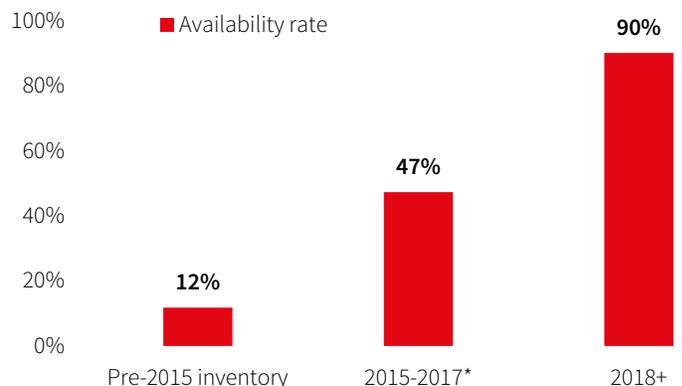
ABC Carpet & Home signed on for 78,000 square feet at Building 19 in Industry City. A new entrant to Brooklyn, the company recently closed warehouses in New Jersey and the Bronx. The Helen Keller Services for the Blind signed a

46,240-square-foot lease at 180 Livingston Street in a relocation from nearby 57 Willoughby Street. Coworking space provider The Yard signed a lease for 33,476 square feet at 195 Broadway in South Williamsburg, representing the firm’s largest location yet.

Leasing activity in new product was limited to just a few deals in the second quarter. Gimlet Media signed a lease to occupy 27,000 square feet at 41 Flatbush Avenue. The digital media and podcasting company represents the first commitment to the former storage facility in Downtown Brooklyn, also known as The Pioneer Building. Gimlet Media was previously located in Gowanus. Mission Media signed a 9,900-square-foot lease at 45 Main Street in DUMBO, doubling in size in its move from Midtown South.

Also recently announced was a 15,000-square-foot commitment by the NYU Tandon School of Engineering at the Brooklyn Navy Yard. The school will use the space for a virtual- and augmented-reality incubator. NYU Tandon received a \$6 million investment from the Economic Development Corporation with the goal of creating 500 jobs over the next 10 years.

Office availability by vintage



*Includes anticipated deliveries

A large delta exists between new and existing buildings, in terms of both availability and asking rents, in the outer boroughs.

Capital Markets

Sitex Group secured a \$94 million acquisition loan from LoanCore Capital for the purchase of a five-property site in Red Hook. The seller, Italian developer Est4te Four, initially planned a \$400 million, 1.2 million-square-foot development for the site. Sitex plans to rehabilitate the industrial buildings for modern-day, last-mile distribution, which has seen increased demand with the rise of e-commerce. Industrial demand in Brooklyn has been strong, especially considering 4.2 million square feet of industrial product in the borough has been demolished or converted to higher use since 2012.

The Rabsky Group recently purchased a three-story, 36,000-square-foot retail building at 633 Fulton Street for \$68 million. The Rabsky Group, along with Spencer Equity, had initially planned to construct a 618,000-square-foot office tower next door at 625 Fulton Street. The acquisition allows for 770,000 square feet as-of-right on the combined parcels. The partnership is now considering either residential or office as the tower's primary use. 625 Fulton Street was purchased from Forest City Ratner for \$158 million in 2016.

Development

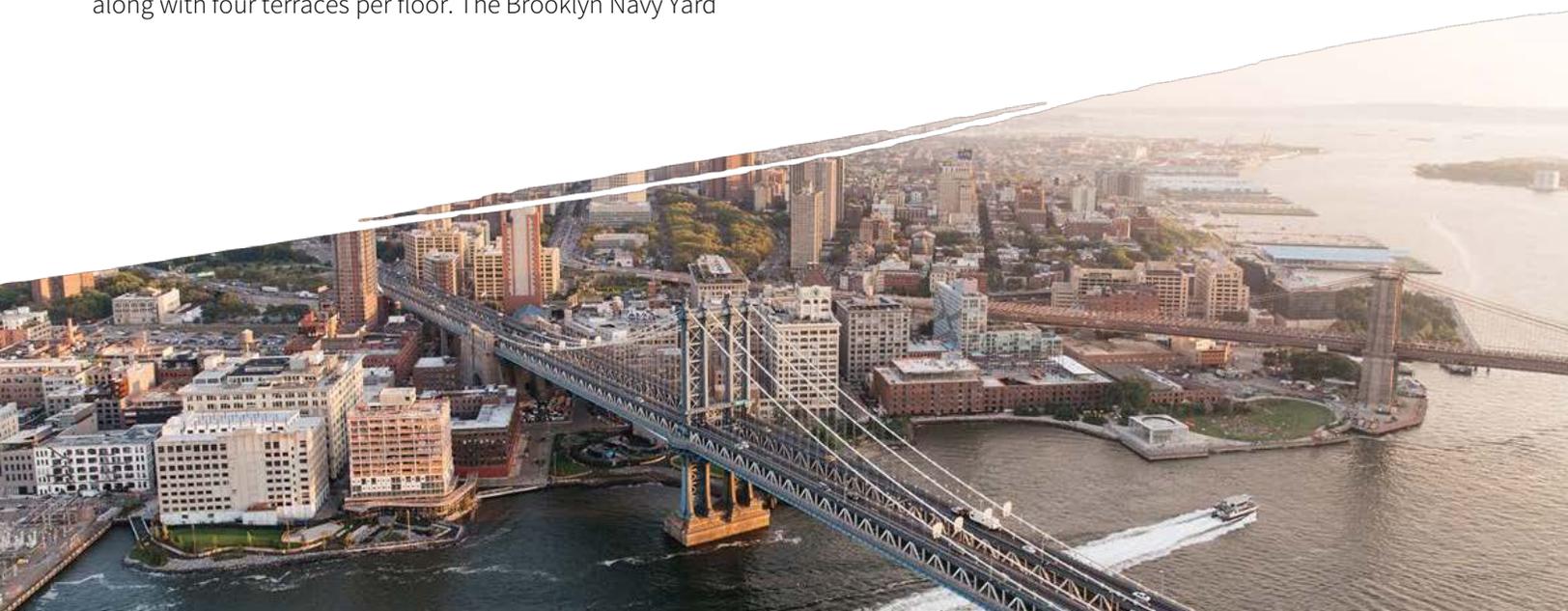
Building 77 delivered at the Brooklyn Navy Yard in the second quarter. The 1.2 million-square-foot building, initially constructed just before World War II, underwent a \$185-million renovation that included new windows and modernized systems and elevators to create a state-of-the-art industrial/manufacturing, tech and design hub. The 16-story building includes a 60,000-square-foot public food-manufacturing hub anchored by Russ & Daughters. The top floors of the building total 150,000 square feet of penthouse space, offering panoramic views of Manhattan and Brooklyn, along with four terraces per floor. The Brooklyn Navy Yard

Development Corporation is also undergoing a prebuilt program for smaller tenants on floors three through nine. Last quarter, retailer Lafayette 148 signed a 67,511-square-foot lease at Building 77 in a relocation from its namesake building, 148 Lafayette Street in Midtown South.

The Columbia Heights Associates, a joint venture between CIM Group, LIVWRK Holdings and Kushner Companies, unveiled plans for the repositioning of the Jehovah's Witnesses Watchtower in DUMBO. The group purchased the five-building campus last year for \$340 million. Upon completion of the redevelopment, the former Jehovah's Witnesses headquarters will be rebranded as "Panorama" and will include 635,000 square feet of interconnected office space, as well as 35,000 square feet of retail and public outdoor space.

Outlook

Embedded in an unprecedented development pipeline lies roughly 11 million square feet of unleased office space—more than is currently available across all existing outer borough product. While some of these projects will not deliver during this cycle, these developments will eventually make up the overwhelming majority of availability in the market. Though interest in this product type is indeed growing, it remains to be seen whether the market will see the demand levels needed to adequately absorb this vast pipeline. Adding to this uncertainty, many of these assets are priced at levels that, barring a few recent transactions, are largely untested in the marketplace.



Brooklyn / Long Island City space statistics

	Current inventory (s.f.)	Under construction / renovation (s.f.)	YTD completions (s.f.)	Direct vacancy	Sublease vacancy	Overall vacancy	Direct asking rent (gross \$ p.s.f.)	Sublease asking rent (gross \$ p.s.f.)	Overall asking rent (gross \$ p.s.f.)
Brick & Beam									
Atlantic Avenue Corridor	57,100	0	0	64.8%	0.0%	64.8%	\$48.00	\$0.00	\$48.00
Downtown Brooklyn	242,992	242,992	0	88.9%	0.0%	88.9%	\$55.00	\$0.00	\$55.00
DUMBO	3,242,369	290,623	0	25.9%	1.7%	27.6%	\$59.53	\$41.03	\$58.93
Flushing Avenue Corridor	0	925,000	0	0.0%	0.0%	0.0%	\$0.00	\$0.00	\$0.00
South Brooklyn Waterfront	111,565	163,678	0	57.8%	0.0%	57.8%	\$41.29	\$0.00	\$41.29
Williamsburg	820,305	886,500	0	47.1%	0.0%	47.1%	\$59.99	\$0.00	\$59.99
Long Island City	350,000	530,000	0	80.1%	0.0%	80.1%	\$57.00	\$0.00	\$57.00
Brick & Beam total	4,824,331	3,038,793	0	37.8%	1.1%	38.9%	\$57.91	\$41.03	\$57.63
Traditional Office									
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	3.7%	0.5%	4.2%	\$48.59	\$48.79	\$48.61
Williamsburg	92,250	0	0	24.3%	0.0%	24.3%	\$57.00	\$0.00	\$57.00
Long Island City	4,475,546	179,400	0	5.0%	7.5%	12.5%	\$44.02	\$36.89	\$39.73
Traditional Office total	16,953,966	859,400	0	4.5%	2.3%	6.8%	\$47.40	\$38.77	\$44.25
Flex									
Atlantic Avenue Corridor	857,500	0	0	12.1%	0.0%	12.1%	\$40.11	\$0.00	\$40.11
Flushing Avenue Corridor	6,062,188	0	0	24.2%	4.0%	28.2%	\$46.32	\$0.00	\$46.32
South Brooklyn Waterfront	11,989,938	0	0	19.6%	0.7%	20.4%	\$25.04	\$32.00	\$25.11
Long Island City	3,309,922	0	0	20.5%	0.2%	20.8%	\$38.51	\$29.00	\$38.46
Flex total	22,219,548	0	0	20.7%	1.5%	22.2%	\$33.52	\$31.59	\$33.51
Total									
Atlantic Avenue Corridor	1,094,600	180,000	0	18.8%	0.0%	18.8%	\$42.19	\$0.00	\$42.19
Downtown Brooklyn	12,449,162	742,992	0	5.4%	0.5%	5.9%	\$50.67	\$48.79	\$50.51
DUMBO	3,242,369	290,623	0	25.9%	1.7%	27.6%	\$59.53	\$41.03	\$58.93
Flushing Avenue Corridor	6,062,188	925,000	0	24.2%	4.0%	28.2%	\$46.32	\$0.00	\$46.32
South Brooklyn Waterfront	12,101,503	163,678	0	20.0%	0.7%	20.7%	\$25.47	\$32.00	\$25.53
Williamsburg	912,555	886,500	0	44.8%	0.0%	44.8%	\$59.83	\$0.00	\$59.83
Long Island City	8,135,468	709,400	0	14.5%	4.2%	18.8%	\$41.66	\$36.80	\$40.44
Brooklyn / L.I.C. total	43,997,845	3,898,193	0	16.4%	1.8%	18.1%	\$40.94	\$38.48	\$40.78

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