

Quarterly Office Outlook

Strong employment fundamentals underscore a growing market for office space in the outer boroughs

Brooklyn / Long Island City overview

Occupiers and investors alike made headlines in Brooklyn in the third quarter. Some notable leases were signed and the capital/development markets remained active. The reality of the development pipeline—and by extension the skyline itself—is beginning to take shape, with a fair share of deliveries, ground breakings and permit filings in the third quarter.

Long Island City recorded a couple of large leases during the quarter. The New York City Housing Authority (NYCHA) signed a renewal/expansion at 23-02 49th Avenue, and Bloomingdale’s officially signed its lease at The JACX at 28-01 Jackson Avenue, a two-building, 1.1-million-square-foot project being developed by Tishman Speyer. Both buildings at the newly re-branded ‘The JACX’ kicked off construction this quarter.

The New York Hotel Trades Council’s building at 620 Fulton Street recently delivered in the Atlantic Avenue Corridor near Barclays Center. The Hotel Trades Council’s health center will occupy roughly 40,000 square feet in the building and the balance, roughly 70,000 square feet, is expected to be leased to another healthcare operator. The building hints at the effect that the healthcare sector, previously not considered ‘office using,’ could have on job growth and office usage in Brooklyn. The healthcare sector in Brooklyn has recorded job growth of 40 percent since 2001, compared with just 12 percent in Manhattan. Due to changes in the industry around inpatient vs. outpatient care, a larger portion of these jobs are occupying office space than ever before.

Leasing

Between NYCHA’s 595,000-square-foot renewal and expansion at 23-02 49th Avenue and Bloomingdale’s 550,000-square-foot lease at The JACX, Long Island City leasing activity in 2017 has already surpassed the total recorded in 2016.

Three notable Long Island City subleases, all at 27-01 Queens Plaza North, were also signed during the third quarter. WeWork continued its New York expansion with a 42,926-square-foot sublease on the 12th and 13th floors.

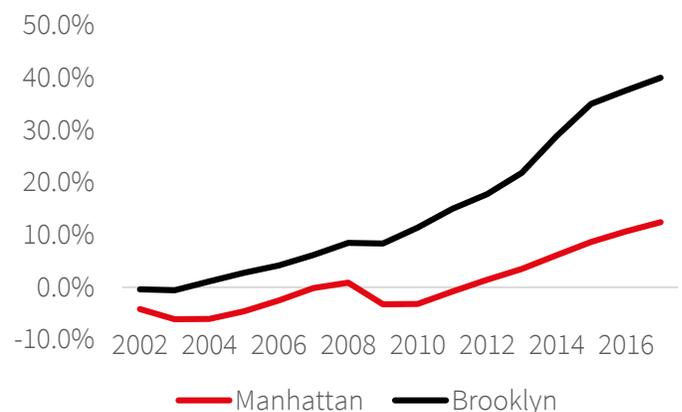
Schweiger Dermatology Group and Fidelis Care each took 21,463 square feet on the 10th and 11th floors, respectively. All three subleases represented spaces formerly occupied by MetLife and each expires in 2023.

In Brooklyn, The New York City Human Resources Administration committed to lease the entire 158,150-square-foot building at 95 Evergreen Avenue in Bushwick. Owners Savanna and Hornig Capital Partners invested \$30 million to renovate the property in 2016 with the original intent of attracting a tech or media firm.

Brooklyn Sports & Entertainment, owner of the Brooklyn Nets and the Barclays Center, signed a lease for 70,000 square feet at 168 39th Street in Industry City. The new space sits directly below the Nets practice facility at the HSS Training Center and represents a 23,000-square-foot expansion from the firm’s current office at 15 Metrotech Center.

In DUMBO, software company Nuxeo signed a 12,567-square-foot lease for half of the fifth floor at 10 Jay Street. The 15-year-old firm will relocate from 181 North 11th Street in Williamsburg early in 2018. Nuxeo joins Translation LLC as tenants who have signed leases in the redevelopment at 10 Jay Street, which is expected to be completed during the fourth quarter of this year.

Cumulative job growth since 2001 (%)



The reality of the development pipeline—and by extension the skyline itself—is beginning to take shape in Brooklyn and Long Island City.

Capital Markets

SL Green will sell 16 Court Street in Downtown Brooklyn to Los Angeles-based CIM Group. After purchasing the property in 2007 for \$107.5 million through a joint venture, SL Green took full ownership of the Montague-Court Building in 2013. CIM Group will pay \$171 million for the 317,600-square-foot office tower, which recently underwent a capital improvement program with more than \$20 million invested in the building. 16 Court Street was 94 percent occupied upon announcement of the sale, which is expected to close in the fourth quarter.

NYU Langone Hospital – Brooklyn is planning to invest \$83.7 million into building an ambulatory surgery center in the Sunset Park section of Brooklyn. The center, at 5610 Second Avenue, is part of the continued expansion of NYU Langone’s outpatient care practice and will lead to increased efficiencies for the organization and its patients. New York State’s DSRIP program, a push to reduce avoidable hospital visits by increasing outpatient access, will likely position Brooklyn and Queens for an increase in these types of facilities. Logically, this would drive additional demand for medical office space in the boroughs.

Development

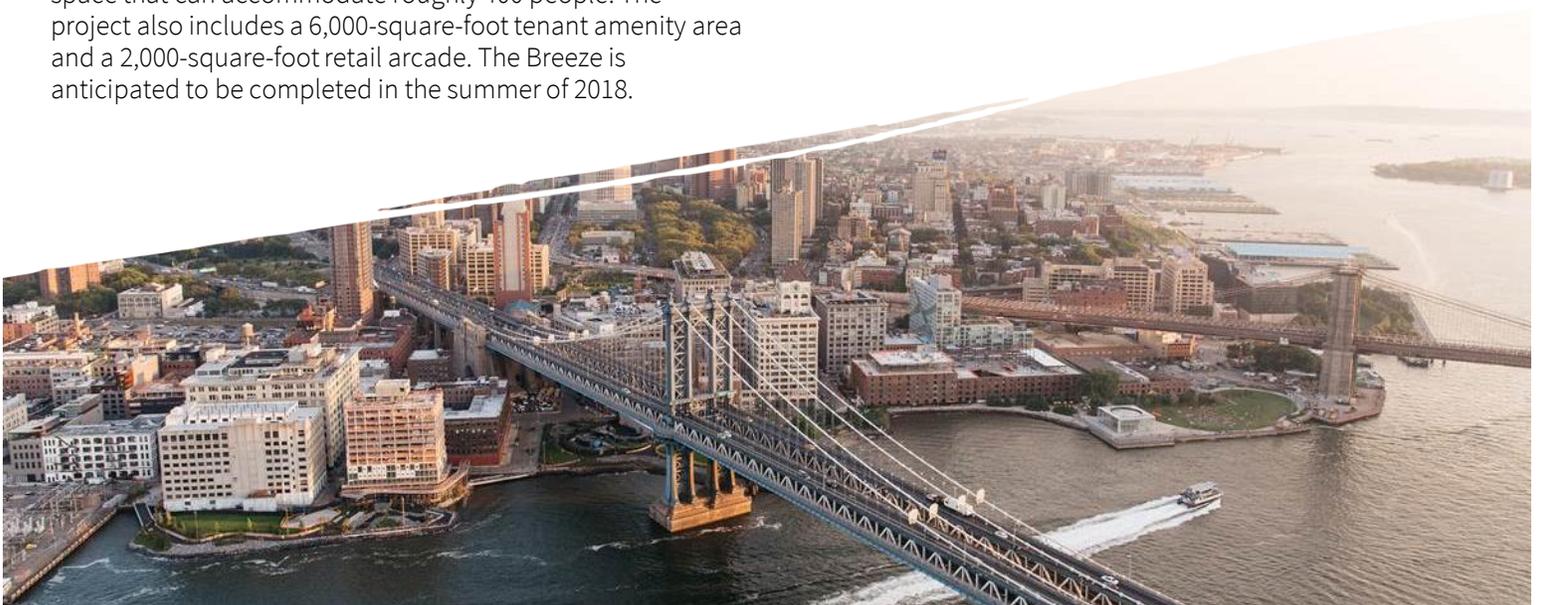
In East Williamsburg, the Hudson Companies began construction on ‘The Breeze’ at 315 Meserole Street. The firm purchased the building in 2016 for \$28 million and plans to invest an additional \$25 million in the redevelopment. The three-story creative office building will include 100,000 square feet of office and retail space, a rooftop bar, and an event space that can accommodate roughly 400 people. The project also includes a 6,000-square-foot tenant amenity area and a 2,000-square-foot retail arcade. The Breeze is anticipated to be completed in the summer of 2018.

Also in the third quarter, Tishman Speyer began work on ‘The Wheeler’ at 422 Fulton Street. The project, which will sit atop a Macy’s department store, will add 620,000 square feet of Class A office space to Downtown Brooklyn once completed in 2018. Macy’s will continue to own and operate the bottom four floors of the building, while Tishman Speyer will construct ten floors of office space above it.

Kushner Companies, in partnership with CIM Group and LIVWRK began work to convert the recently purchased Watchtower at 25-30 Columbia Heights into 733,000 square feet of premier DUMBO office space. Also expected to be completed in 2018, the project has been rebranded as ‘Panorama’ for its impressive views of the Brooklyn Bridge and the Manhattan skyline.

Outlook

Population growth and demographic shifts have undoubtedly reshaped the residential makeup of Brooklyn and Long Island City. Aside from traditional back office operations, the office market is largely still in its nascent state. Strong employment growth, well diversified across sectors, has provided some evidence that the office market could follow suit. Brooklyn has recorded overall job growth of 29 percent since year-end 2009, nearly double the growth seen in Manhattan over that same time period (16 percent). Brooklyn’s employment has also been more stable during economic downturns than that of Manhattan, an important factor as we move deeper into one of the longest expansionary periods in American history.



Long Island City

Inventory: 8,135,468 SF
Vacancy rate: 19.3%
Rental rate: \$40.52 PSF



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 SF
Vacancy rate: 44.1%
Rental rate: \$60.17 PSF



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 SF
Vacancy rate: 27.9%
Rental rate: \$44.64 PSF



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 SF
Vacancy rate: 24.5%
Rental rate: \$58.96 PSF



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 SF
Vacancy rate: 5.6%
Rental rate: \$50.86 PSF



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 SF
Vacancy rate: 19.6%
Rental rate: \$41.89 PSF



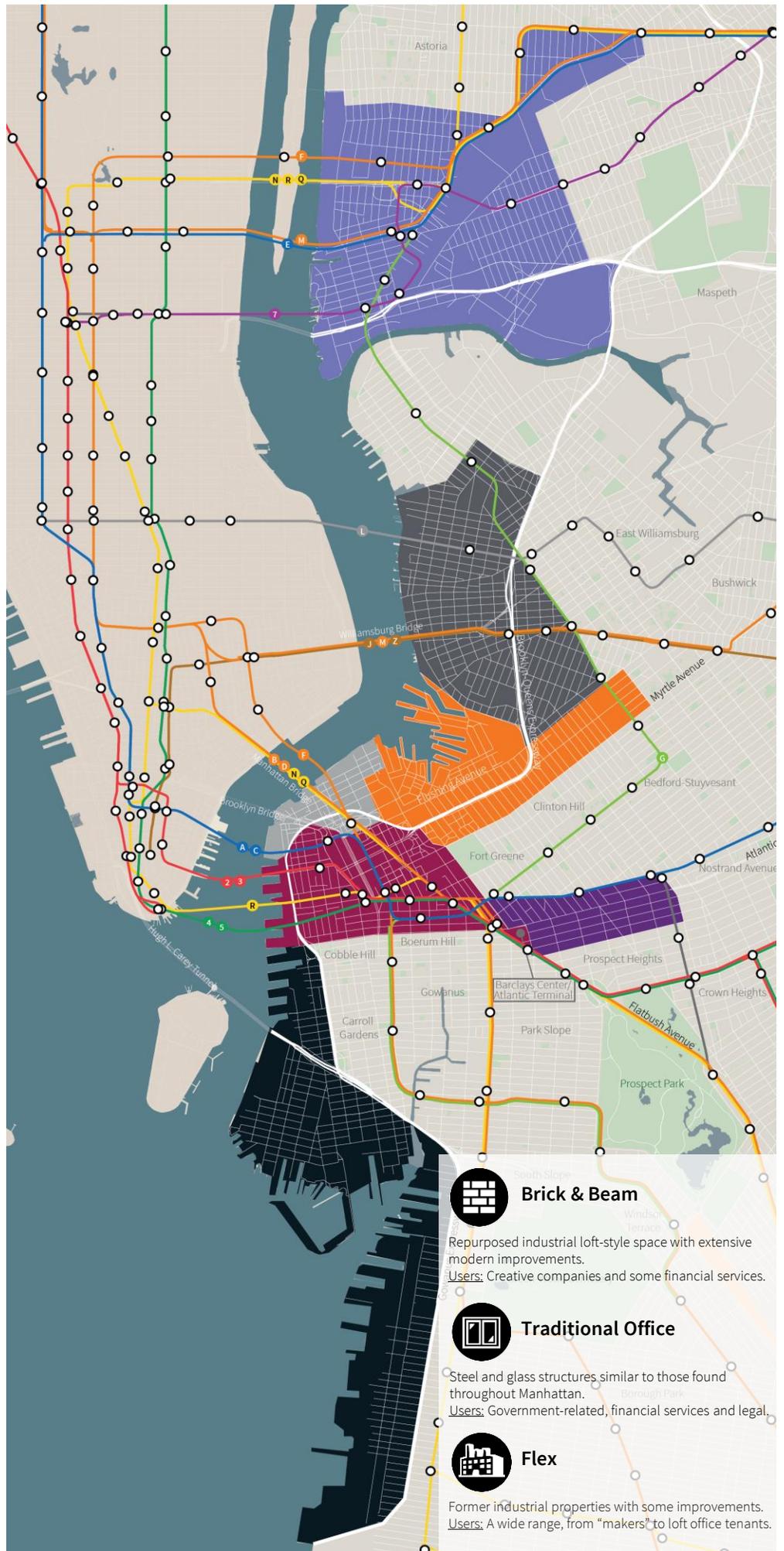
A strong prospect for future growth; accessible by public transportation and close to neighborhoods with a strong employee base.

South Brooklyn Waterfront

Inventory: 12,101,503 SF
Vacancy rate: 18.6%
Rental rate: \$26.24 PSF



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)
Brick & Beam									
Atlantic Avenue Corridor	57,100	0	0	65.5%	0.0%	65.5%	\$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	1,023,623	0	23.4%	1.1%	24.5%	\$59.27	\$42.69	\$58.96
Flushing Avenue Corridor	0	1,595,000	0	0.0%	0.0%	0.0%	\$0.00	\$0.00	\$0.00
South Brooklyn Waterfront	111,565	163,678	0	32.4%	0.0%	32.4%	\$40.82	\$0.00	\$40.82
Williamsburg	820,305	960,000	0	47.0%	0.0%	47.0%	\$60.00	\$0.00	\$60.00
Long Island City	350,000	872,061	0	80.1%	0.0%	80.1%	\$57.00	\$0.00	\$57.00
Brick & Beam total	4,824,331	4,857,354	0	35.5%	0.7%	36.2%	\$57.99	\$42.69	\$57.85
Traditional Office									
Atlantic Avenue Corridor	180,000	0	0	37.8%	0.0%	37.8%	\$0.00	\$0.00	\$0.00
Downtown Brooklyn	12,206,170	1,120,000	0	3.3%	0.6%	3.9%	\$49.05	\$48.51	\$48.96
Williamsburg	92,250	0	0	18.2%	0.0%	18.2%	\$64.00	\$0.00	\$64.00
Long Island City	4,475,546	1,254,000	0	7.1%	6.4%	13.5%	\$44.02	\$36.89	\$40.00
Traditional Office total	16,953,966	2,374,000	0	4.7%	2.2%	6.9%	\$47.68	\$39.25	\$44.63
Flex									
Atlantic Avenue Corridor	857,500	0	0	12.7%	0.0%	12.7%	\$39.80	\$0.00	\$39.80
Flushing Avenue Corridor	6,062,188	0	0	27.9%	0.0%	27.9%	\$44.64	\$0.00	\$44.64
South Brooklyn Waterfront	11,989,938	0	0	17.5%	1.0%	18.5%	\$25.92	\$32.00	\$25.99
Long Island City	3,309,922	0	0	20.3%	0.4%	20.7%	\$38.49	\$29.00	\$38.36
Flex total	22,219,548	0	0	20.6%	0.6%	21.2%	\$34.53	\$31.15	\$34.51
Overall									
Atlantic Avenue Corridor	1,094,600	0	0	19.6%	0.0%	19.6%	\$41.89	\$0.00	\$41.89
Downtown Brooklyn	12,449,162	1,362,992	0	4.9%	0.6%	5.6%	\$51.15	\$48.51	\$50.86
DUMBO	3,242,369	1,023,623	0	23.4%	1.1%	24.5%	\$59.27	\$42.69	\$58.96
Flushing Avenue Corridor	6,062,188	1,595,000	0	27.9%	0.0%	27.9%	\$44.64	\$0.00	\$44.64
South Brooklyn Waterfront	12,101,503	163,678	0	17.6%	1.0%	18.6%	\$26.18	\$32.00	\$26.24
Williamsburg	912,555	960,000	0	44.1%	0.0%	44.1%	\$60.17	\$0.00	\$60.17
Long Island City	8,135,468	2,126,061	0	15.6%	3.7%	19.3%	\$41.67	\$36.64	\$40.52
Brooklyn / L.I.C total	43,997,845	7,231,354	0	16.1%	1.2%	17.3%	\$41.35	\$38.72	\$41.20

For more information, contact:

Stefan Weiss
 Manager, Research
 +1 212 220 4122
 Stefan.Weiss@am.jll.com

Corporate Office
 330 Madison Avenue
 New York, NY 10017
 +1 212 812 5700

www.jll.com/research

Downtown Office
 28 Liberty Street
 New York, NY 10005
 +1 212 418 2635