

FIGURES | BROOKLYN | Q2 2023

# Leasing slows for second consecutive quarter

▼ 128K  
Leasing Activity

▼ 144k  
Net Absorption

▼ 23.9%  
Availability Rate

▼ 22.1%  
Vacancy Rate

▲ \$53.50  
Average Asking Rent

Note: Arrows indicate change from previous quarter.

## QUICK FACTS

- Leasing activity totaled 128,000 sq. ft. in Q2 2023, a 43% decrease from Q1 2023 and 56% below the five-year quarterly average
- The availability rate decreased 40 basis points (bps) from the previous quarter to 23.9% but is up 120 bps from the prior year
- Net absorption totaled positive 144,000 sq. ft. in Q2, bringing year-to-date absorption to 546,000 sq. ft.
- The average asking rent was \$53.50 per sq. ft., up 2% quarter-over-quarter and up 13% year-over-year
- The sublease availability rate rose 20 bps from the prior quarter to 1.6% and represents 7% of all available space

## Market Overview

Limited supply additions helped minimize the impact of softening demand in the Brooklyn office market during Q2. Leasing activity saw a steep decline to 128,000 sq. ft., down 43% from Q1 2023 and trailing the five-year quarterly average by 56%. This brings year-to-date leasing to 354,000 sq. ft., 5% lower than the same time last year. Limited space additions and the continuation of flex offerings focusing more solely on industrial use kept absorption positive in Q2, totaling 144,000 sq. ft. Availability declined of 40 bps quarter-over-quarter to 23.9% as a result of the positive absorption. Average asking rent increased 2% from the prior quarter to \$53.50 and is up 13% year-over-year, though this is a reflection of removal of low-priced spaces more so than confidence in pushing pricing.

## Economic Overview

For the past two quarters the consensus amongst economists has been that the second half of 2023 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range per annum amid objectively tight labor conditions. However, beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The Fed will make one more rate hike due to strong recent data, just to make sure the job of bringing inflation under control is done. Thus, the long-expected slowdown in the U.S. economy is still on track but will start in earnest at the end of Q3 2023 and last through to the end of Q1 2024, by which time inflation will have slowed up and rates will be falling.

In NYC, the labor market has followed a similarly resilient path as on the national stage, despite the pressures facing the economy. Office-using employment (OUE) in NYC recouped all the jobs lost due to the pandemic by Q3 2022, topping its prior peak at 1.83 million jobs – a recovery driven by the business and professional services, tech, and information industry sectors. Since then, layoff announcements by some of NYC’s large local office occupiers appears to have cooled the headline OUE growth but employment continues to make strides, with solid increases in three of the past four months. As of May 2023, NYC’s OUE stood at 1.85 million, an all-time high.

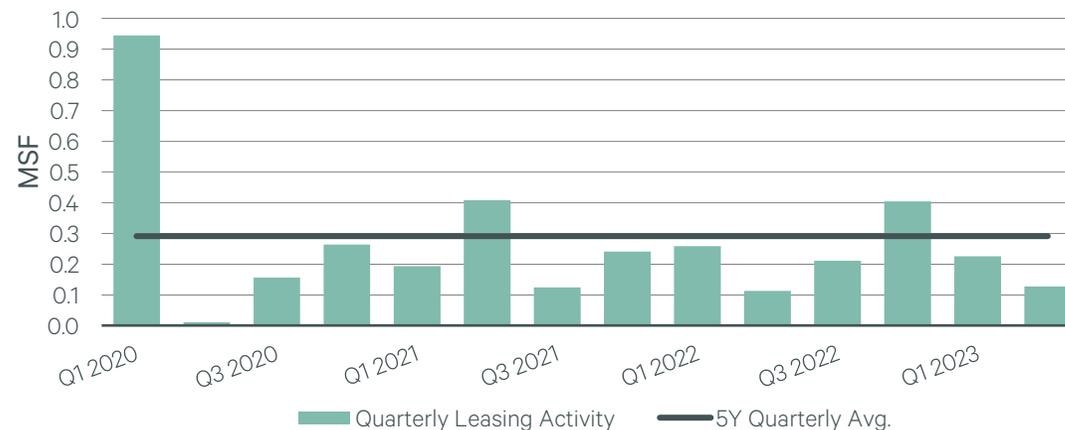
NYC’s overall unemployment rate has been stable throughout 2023, at 5.3% as of May. At this level, it has crept up from its pandemic recovery era low point of 4.6% in August 2022 but remains down considerably from its 21.4% pandemic peak. Relative to unemployment on the national level, it remains somewhat higher than the May 2023 U.S. unemployment rate of 3.7%.

FIGURE 1: Top Lease Transactions for Q2 2023

Size (Sq. Ft.)		Tenant	Address
24,587	(E)	Aanika Biosciences	Industry City Bldg 6
15,000		Bridging Access to Care	390 Berry Street
10,055	(E)	Equinor	Industry City Bldg 4
4,780		Big Spaceship LLC	1 Willoughby Square
3,987		Koto Studio	360 Wythe Avenue

Source: CBRE Research, Q2 2023. Renewal (R), Expansion (E), Renewal and Expansion (RE).

FIGURE 2: Leasing Activity | Quarterly Historical



Source: CBRE Research, Q2 2023

## Leasing Activity

Brooklyn’s office leasing declined for the second consecutive quarter, reaching 128,000 sq. ft. in Q2 2023—a 43% decrease from the prior quarter and 56% below the five-year quarterly average. Brooklyn’s year-to-date leasing total is 353,000 sq. ft., 5% less than the same period last year. No submarket outpaced its five-year average.

South Brooklyn led all submarkets in leasing for Q2, with 54,000 sq. ft. of leasing — down 11% from Q1 and down 10% from its five-year quarterly average. The Industry City campus saw two tenant expansions: Aanika Biosciences’ 25,000-sq.-ft. expansion—the largest transaction of the quarter— and Equinor’s 10,000-sq.-ft. expansion.

Williamsburg/Greenpoint was the only submarket to show quarterly improvement in leasing. The submarket’s 30,000 sq. ft. of leasing activity was a 273% improvement from the previous quarter, but still 37% below the five-year average. Bridging Access to Care’s 15,000-sq.-ft. lease at 390 Berry Street and Koto Studio’s 4,000-sq.-ft. deal at 360 Wythe Avenue were two noteworthy deals of the quarter.

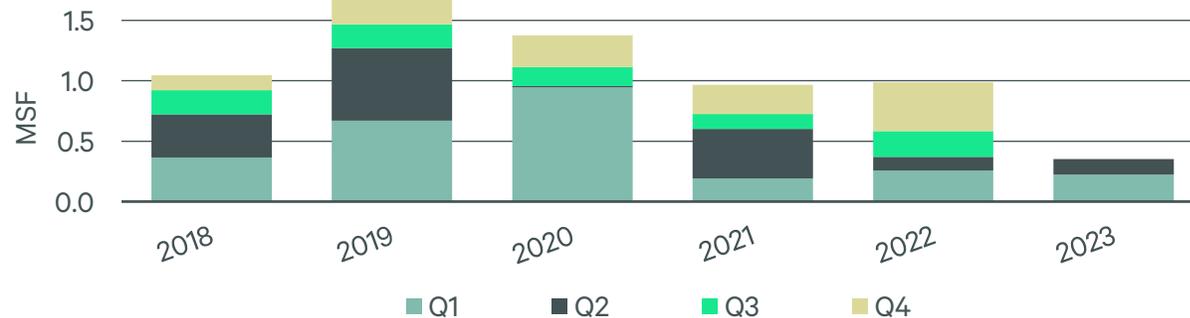
Navy Yards, Downtown Brooklyn, and DUMBO all saw quarterly leasing slow in Q2 and all submarkets were at least 50% below their five-year averages. Navy Yards’ leasing amounted to 6,000 sq. ft., down 90% from Q1 and 68% from its five-year average. Downtown Brooklyn saw the largest deviation from its five-year average with its 17,000 sq. ft. of leasing declining 73% from the previous quarter and falling 85% below the five-year average. DUMBO’s 21,000 sq. ft. of leasing activity fell 36% from a relatively weak Q1 and 58% below the five-year quarterly average.

FIGURE 3: Leasing Activity | By Submarket



Source: CBRE Research, Q2 2023.

FIGURE 4: Annual Leasing Activity | Historical



Source: CBRE Research, Q2 2023.

## Net Absorption and Availability

Despite diminished leasing activity, Brooklyn’s net absorption has remained positive in Q2, amounting to 144,000 sq. ft. This marks the seventh consecutive quarter of positive absorption, with year-to-date absorption totaling 546,000 sq. ft. Navy Yards’ had the highest absorption total of all submarkets at 148,000 sq. ft., largely resulting from the removal of spaces transitioning to industrial use and no new office space being added. Brooklyn Navy Yards’ availability decreased 560 bps quarter-over-quarter to 42.4%.

Downtown Brooklyn and South Brooklyn also experienced positive absorption, with totals of 19,000 sq. ft. and 64,000 sq. ft. respectively despite muted leasing due to limited space additions in the markets. Downtown Brooklyn’s availability rate saw a 10 bps decrease from Q1 to 15.4% while South Brooklyn’s availability rate dropped 80 bps to 27.9%.

Williamsburg/Greenpoint saw negative absorption of 11,000 sq. ft. causing availability to increase 20 bps from the prior quarter to 23.2%. DUMBO had the lowest absorption of the quarter with 77,000 sq. ft. of negative absorption. Subdued leasing and several additions larger than 25,000 sq. ft. contributed to its negative absorption. The largest spaces added in DUMBO were 31,000 sq. ft. at 20 Jay, 26,000 sq. ft. at 295 Front Street, and 64,000 sq. ft. at 55 Prospect Street. This new supply caused the availability rate to rise 170 bps from the previous quarter to 38.0%—an all-time high.

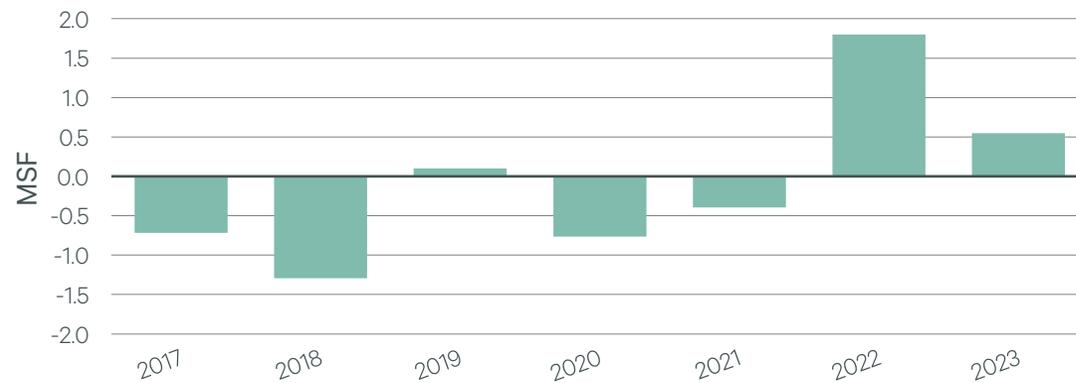
Brooklyn’s sublease availability rate rose 20 bps from the previous quarter to 1.6%, currently totaling 598,000 sq. ft. Sublease space currently accounts for 7% of all available space — down from 8% year-over-year.

FIGURE 5: Quarterly Net Absorption | By Submarket



Source: CBRE Research, Q2 2023.

FIGURE 6: Net Absorption | Historical



Source: CBRE Research, Q2 2023.

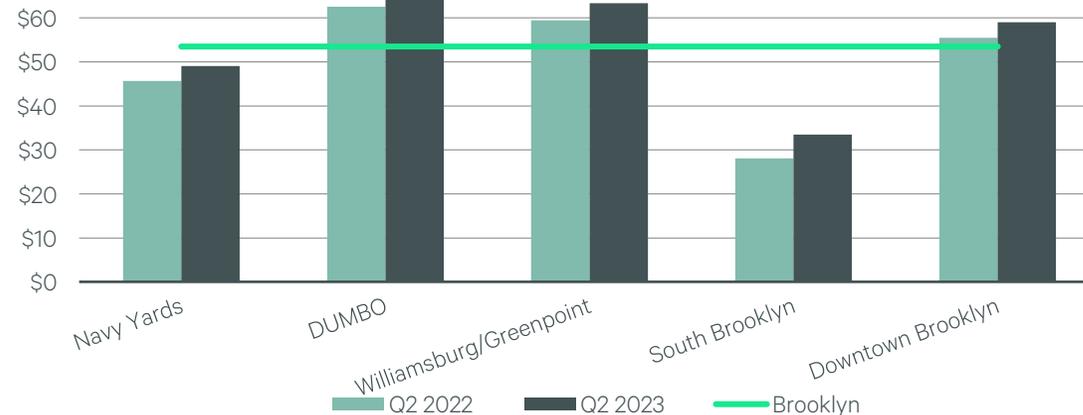
## Average Asking Rent

Brooklyn’s average asking rent for the quarter was \$53.50 per sq. ft., a 2% increase from Q1 and up 13% year-over-year. Navy Yards saw largest increase in average asking rent, increasing 9% from the previous quarter to \$49.10 per sq. ft. due to low priced listings being withdrawn from the market as those assets shifted their focus away from office use. The other four submarkets saw their average asking rent remain virtually flat from the previous quarter.

## Development Pipeline

Brooklyn’s office supply pipeline has three ground-up projects in progress totaling 1.03M sq. ft. expected to deliver from 2023 to 2024: 300 Kent Avenue, 29 Jay Street, and 141 Willoughby Street. 141 Willoughby received its TCO in Q2 while 300 Kent is scheduled to deliver in September 2023 and 29 Jay is expected for Q1 2024. Each of these projects are included in the current availability rate.

FIGURE 7: Average Asking Rent | by Submarket



Source: CBRE Research, Q2 2023.

FIGURE 8: Availability Rate | By Submarket



Source: CBRE Research, Q2 2023.

## Market Area Overview

### Definitions

**Availability:** Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction.

**Asking Rent:** Weighted average asking rent.

**Concession Values:** The combination of rent abatement and T.I. allowance. The graph is for new leases for raw space of 25,000 sq. ft. or greater consummated year-to-date, this excludes expansion and renewal deals.

**Leasing Activity:** Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing, but excluding renewals.

**Leasing Velocity:** Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing and renewals.

**Net Absorption:** The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

**Rent Abatement:** The time between lease commencement and rent commencement.

**Taking Rent:** Actual, initial base rent in a lease agreement.

**Taking Rent Index:** Initial taking rents as a percentage of asking rents.

### Definitions

**T.I.:** Tenant improvements.

**Vacancy:** Unoccupied space available for lease.

**Percentage of Leasing by Industry:** The percentage of sq. ft. leased by an industry based on transactions where a tenant and industry have been confirmed.

### Survey Criteria

CBRE's market report analyzes fully modernized office buildings that total 35,000+ sq. ft. in Brooklyn, including owner-occupied buildings (except those owned and occupied by a government or government agency). New construction must be available for tenant build-out within 12 months. CBRE assembles all information through telephone canvassing and listings received from owners, tenants and members of the commercial real estate brokerage community.

**Market Area Overview**



Submarket	Total Size (Mill. Sq. Ft.)	No. of Buildings
Brooklyn Navy Yard	2.63	12
Downtown Brooklyn	16.74	58
DUMBO	4.53	21
South Brooklyn	8.30	28
Williamsburg/Greenpoint	5.23	43
<b>Total Inventory</b>	<b>37.43</b>	<b>162</b>

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