

FIGURES | BROOKLYN | Q1 2023

# Leasing slows while availability ticks up

▼ 225K  
Leasing Activity

▼ 402k  
Net Absorption

▲ 24.3%  
Availability Rate

▲ 22.3%  
Vacancy Rate

▲ \$52.38  
Average Asking Rent

Note: Arrows indicate change from previous quarter.

## QUICK FACTS

- Leasing activity totaled 225,000 sq. ft. in Q1 2023, a 44% decrease from Q4 2022 and 26% below the five-year quarterly average
- Renewals amounted to 4,400 sq. ft. in Q1, down 2% from Q1 2022
- The availability rate increased 360 basis points (bps) from the previous quarter to 24.3% and up 160 bps from the prior year
- Net absorption totaled positive 402,000 sq. ft. in Q1
- The average asking rent was \$52.38 per sq. ft., up 7% quarter-over-quarter and up 11% year-over-year
- The sublease availability rate increased 20 bps from the prior quarter to 1.4% and represents 6% of all available space

## Market Overview

Brooklyn office leasing activity slowed in Q1 2023 to 225,000 sq. ft., down 44% from the prior quarter and trailing the five-year quarterly average by 26%. The office market is seeing diminished demand while retail and industrial are active. Many industrial flex buildings are shifting to solely industrial use, thus some former office inventory has been removed from the market. This culling of the office stock led to positive absorption of 402,000 sq. ft. in the first quarter. Despite this, the availability rate was 24.3%— the highest since CBRE began tracking the Brooklyn market.<sup>1</sup> Additionally, deliveries of new product into the DUMBO and Downtown Brooklyn markets increased availability and pushed up average asking rent. Average asking rent increased 7% from the previous quarter, rising to \$52.38 per sq. ft and up 11% year-over-year.

## Economic Overview

On a national level, downstream consequences of the Fed’s tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy – the consumer – as banks limit lending to increase their own liquidity. Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years causing firms to shelve expansion plans and limit business investment.

This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged – a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

In NYC, office-using employment (OUE) has proved resilient thus far despite the pressures facing the broader economy. OUE reached an all-time high of 1.84 million at year-end 2022, topping its pre-pandemic peak by 1%, a recovery boosted by the business and professional services, tech, and information industry sectors. In January OUE fell by 14,000, its sharpest month-over-month decline since early 2020, but quickly rebounded in February, adding 7,000 jobs and finishing the month at 1.83 million. Looking ahead, NYC’s OUE is poised to continue dealing with the headwinds resulting from recent announcements of impending layoffs by large local office occupiers.

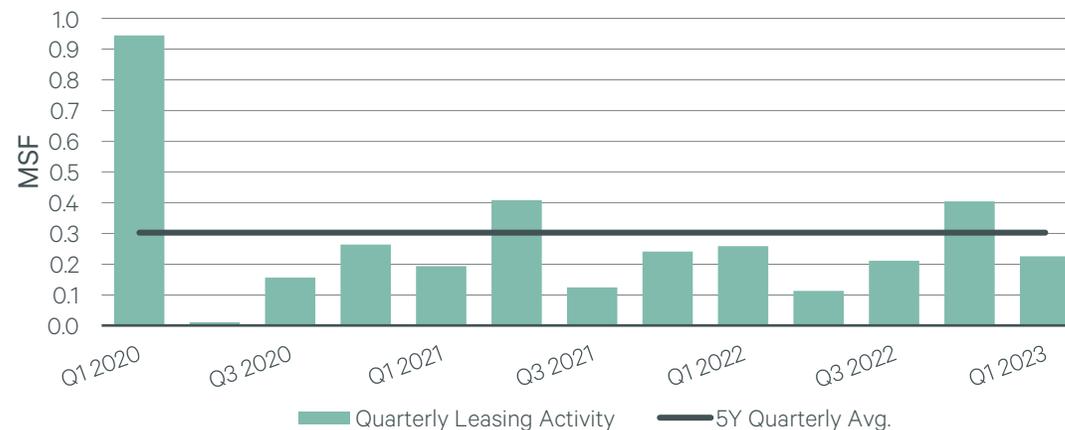
As of February 2023, NYC’s overall unemployment rate stood at 5.4%, up from its pandemic era low point in of 4.6% in August 2022. At this level it remains down considerably from its 21.4% pandemic peak, but higher than the 3% range seen just prior to the pandemic. It also remains higher than the February 2023 national unemployment rate of 3.6%.

FIGURE 1: Top Lease Transactions for Q1 2023

Size (Sq. Ft.)	Tenant	Address
50,000	The Center for Planetary Health	63 Flushing Ave – Building 303
45,000	NYU Tisch School of the Arts	Industry City Bldg 8
14,507	Cityblock Health	1 Willoughby Square
12,117	Shell’s Loft	11 Adelphi Street
9,312	Sasaki Associates	16 Court Street

Source: CBRE Research, Q1 2023. Renewal (R), Expansion (E), Renewal and Expansion (RE).

FIGURE 2: Leasing Activity | Quarterly Historical



Source: CBRE Research, Q1 2023

## Leasing Activity

Following a strong Q4 2022, Brooklyn’s Q1 2023’s 225,000 sq. ft. of leasing activity dropped 44%—26% below the five-year quarterly average.

The largest transaction of the quarter was The Center for Planetary Health’s 50,000-sq.-ft. lease on the top floor of Brooklyn Navy Yard’s Building 303. This, along with the Shell’s Loft 12,000-sq.-ft. deal at 11 Adelphi Street, caused the Navy Yards to lead Brooklyn’s submarkets in leasing with 62,000 sq. ft.—a 374% quarterly increase and 178% above the five-year quarterly average, the only submarket to have quarterly leasing activity exceed its five-year average.

Brooklyn South almost matched its five-year quarterly average, trailing by 10% with leasing activity totaling 60,000 sq. ft. This was due in large part to the second largest transaction of the quarter, NYU Tisch School of the Arts’ 45,000-sq.-ft. lease in Building 8 at Industry City.

Downtown Brooklyn saw two of the largest deals of the quarter. One of which being Cityblock Health’s 15,000-sq.-ft. lease at 1 Willoughby Square. Cityblock’s deal was for a full-floor, high-end prebuilt which signed quickly after completion of its construction. This showcases the two prevalent trends of tenants gravitating toward high-end buildings as well as the desire to sign onto built space ready for immediate move-in. To capitalize on this demand, 1 Willoughby has three more prebuilt floors underway. Sasaki Associates’ lease at 16 Court Street rounds out the top five, signing for 9,000-sq.-ft. on the 14th floor of the building. Despite these deals, Downtown Brooklyn’s 62,000 sq. ft of leasing activity for the quarter trailed its five-year quarterly average by 47%, behind the same period a year ago by 30%.

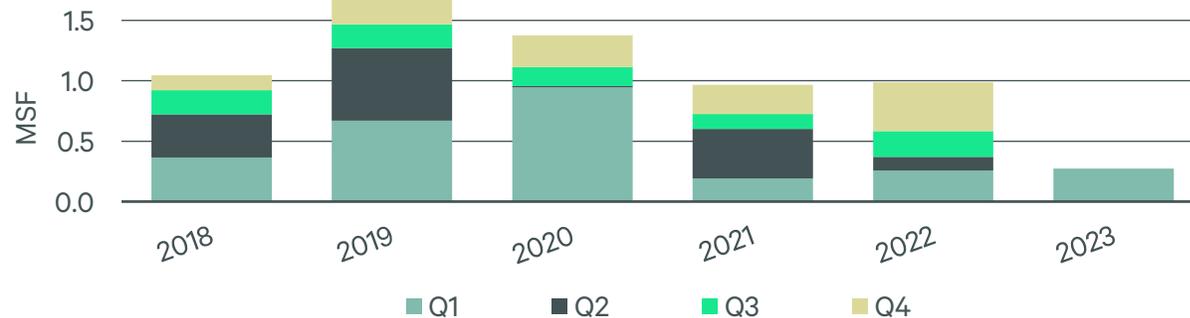
DUMBO and Williamsburg/Greenpoint had the lowest office leasing totals of the quarter with 33,000 sq. ft. and 8,000 sq. ft. respectively. DUMBO’s leasing total saw a 64% drop from the previous quarter and was 35% below its five-year quarterly average. Williamsburg/Greenpoint’s leasing was 76% down quarter-over-quarter and 83% below its five-year quarterly average.

FIGURE 3: Leasing Activity | By Submarket



Source: CBRE Research, Q1 2023.

FIGURE 4: Annual Leasing Activity | Historical



Source: CBRE Research, Q1 2023.

## Net Absorption and Availability

Brooklyn witnessed positive net absorption for the sixth consecutive quarter, amounting to 402,000 sq. ft. in Q1. But this does not reflect demand in the office market. The past two quarters of absorption were greatly impacted by buildings being removed from the office inventory as leasing efforts turn to industrial demand. The net impact will be positive for the office market as less supply will help balance the market.

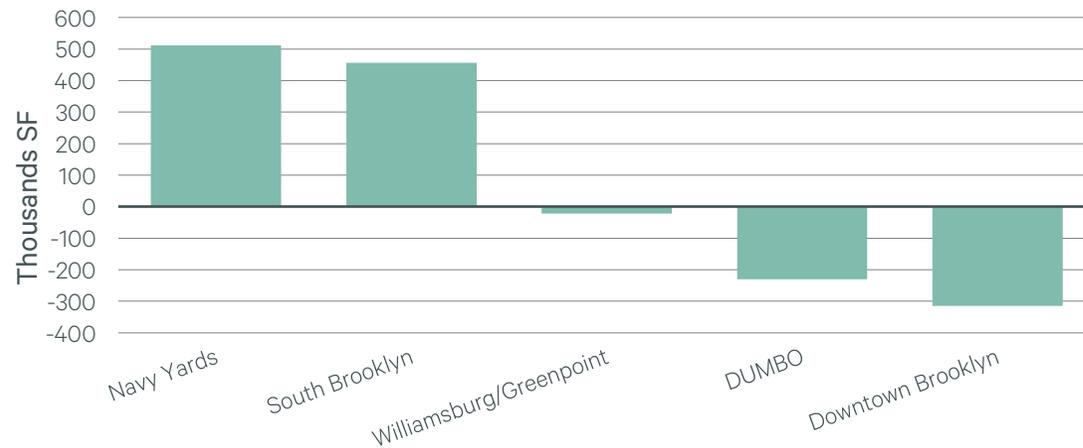
Downtown Brooklyn and DUMBO saw the largest negative absorption totals of the quarter, amounting to negative 314,000 sq. ft. and 230,000 sq. ft. respectively. This negative absorption is largely due to new projects 141 Willoughby Street in Downtown Brooklyn and 29 Jay Street in DUMBO being added to the market. As a result, the availability rates in both submarkets increased from last quarter with Downtown Brooklyn rising by 190 bps to 15.5% and DUMBO rising 340 bps to 36.3%.

Limited leasing activity led to negative absorption in Williamsburg/Greenpoint as well, totaling negative 22,000 sq. ft. which brought the availability rate to 23.0%

The negative absorption in Downtown Brooklyn and DUMBO was outweighed by high positive absorption totals in the Navy Yards and South Brooklyn. Both submarkets saw relatively strong leasing and removals of several flex properties that are repositioning away from office use. The Navy Yards experienced positive absorption of 512,000 sq. ft., leaving its availability at 48.0%. South Brooklyn totaled 456,000 sq. ft. of positive absorption due to the removal of office inventory and the remaining supply put the availability rate at 28.7% in Q1 2023.<sup>1</sup>

Brooklyn’s sublease availability rate rose to 1.4%, currently totaling 520,000 sq. ft. Sublease space accounts for 6% of all available space — flat quarter-over-quarter and down 2% year-over-year.

FIGURE 5: Quarterly Net Absorption | By Submarket



Source: CBRE Research, Q1 2023.

FIGURE 6: Net Absorption | Historical



Source: CBRE Research, Q1 2023.

## Average Asking Rent

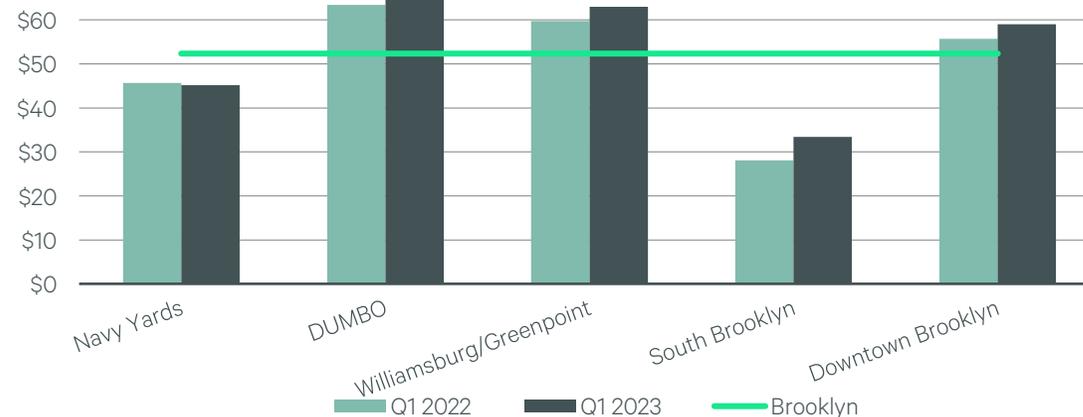
Brooklyn’s average asking rent for the quarter was \$52.38 per sq. ft., a 7% increase quarter-over-quarter and up 11% from the previous year. DUMBO saw the largest increase in average asking rent, rising 6% from the previous quarter to \$65.09 per sq. ft. as 29 Jay Street added a 237,000 sq. ft. block priced well above the average. Similarly, Downtown Brooklyn’s average asking rent experienced a 4% quarterly increase to \$59.01 due to the space at 141 Willoughby Street being priced above the average. The average asking rent of Brooklyn South saw a 5% bump to \$33.42 per sq. ft. largely resulting from the withdrawal of space priced below average. Navy Yards and Williamsburg/Greenpoint’s average asking rent remained flat quarter-over-quarter at \$45.15 per sq. ft. and \$62.99 per sq. ft. respectively.

## Development Pipeline

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

<sup>1</sup> Each year CBRE Research conducts an annual inventory adjustment for each major market to determine updates/revisions to CBRE’s statistical sample. This may result in changes to a market’s total office stock due to building additions, removals, or remeasurement of existing office stock. The increase in availability rate despite positive absorption can be attributed to these inventory adjustments.

FIGURE 7: Average Asking Rent | by Submarket



Source: CBRE Research, Q1 2023.

FIGURE 8: Availability Rate | By Submarket



Source: CBRE Research, Q1 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>

Contact

Nicole LaRusso

Senior Director, Research & Analysis  
 +1 212 984 7188  
 Nicole.LaRusso@cbre.com

Michael Slattery

Associate Field Research Director  
 +1 212 656 0583  
 Michael.Slattery@cbre.com

Jared Koeck

Field Research Manager  
 +1 212 984 6548  
 Jared.Koeck@cbre.com

Dominic Schroeder

Data Research Analyst  
 +1 212 895 0982  
 Dominic.Schroeder@cbre.com