

DOWNTOWN BROOKLYN'S RESIDENTIAL GROWTH

A Five-Year Review 2014–2018



Over the past two decades, Downtown Brooklyn has seen transformative residential development as new projects give rise to a changing Brooklyn skyline and a growing community of residents.

In the years following the 2004 adoption of the Downtown Brooklyn Development Plan and an area-wide rezoning of the Special Downtown Brooklyn District more than 14,000 new housing units were delivered in Downtown Brooklyn, nearly two-thirds of which were delivered during the past five years. The district's growth has accompanied a boom in Brooklyn and NYC's economy, with record employment and population in the borough and city.

In this report, Downtown Brooklyn Partnership (DBP) provides a data-driven snapshot of the Downtown Brooklyn housing market. DBP staff conducted interviews with citywide housing experts and more than a dozen developers and leasing professionals representing more than two-thirds of all newly-delivered rental units.

Using data from city agencies, leading brokerage firms, developers, and property owners, this report:

- Illustrates the supply and makeup of Downtown Brooklyn's housing stock in the last five years
- Depicts occupancy and absorption trends from 2014 to present
- Provides an outlook on the development pipeline

KEY FINDINGS

Unprecedented growth of a residential neighborhood with mostly rental housing stock: Since the rezoning, more than 70 developments with over 14,000 housing units have been delivered in Downtown Brooklyn. The majority of new housing supply to date (82% of all units, or 11,800+ units) is rental housing.

Significant rental and affordable housing growth in the past five years: Nearly two-thirds (64%) of Downtown Brooklyn's housing supply (9,100+ units) was delivered between 2014 and 2018, including more than 8,500 rental units. 24% of new rental deliveries are affordable (2,000+ units).

Strong absorption and short lease-up periods despite large volume of new inventory: Many new buildings have stabilized within a year, with lease-up periods ranging from 4 to 20 months. Developers report that stabilization timelines generally meet or exceed expectations. The absorption pace for new rental buildings in DBP's survey ranges from 5 to 70+ units per month. Most new buildings report leasing between 20 and 40 units per month.

Occupancy remains high following new deliveries: Occupancy at Downtown Brooklyn properties is high (95%+) at both older and new multifamily rental buildings.

Rent growth has continued despite significant delivery of new units: Median asking rent in Downtown Brooklyn increased 15% between 2014 and 2018.¹ The market shows strength with growing rents despite high use of concessions.

¹ Source: StreetEasy. Data is derived from all rental listings available during the given time period and includes primarily market-rate units.

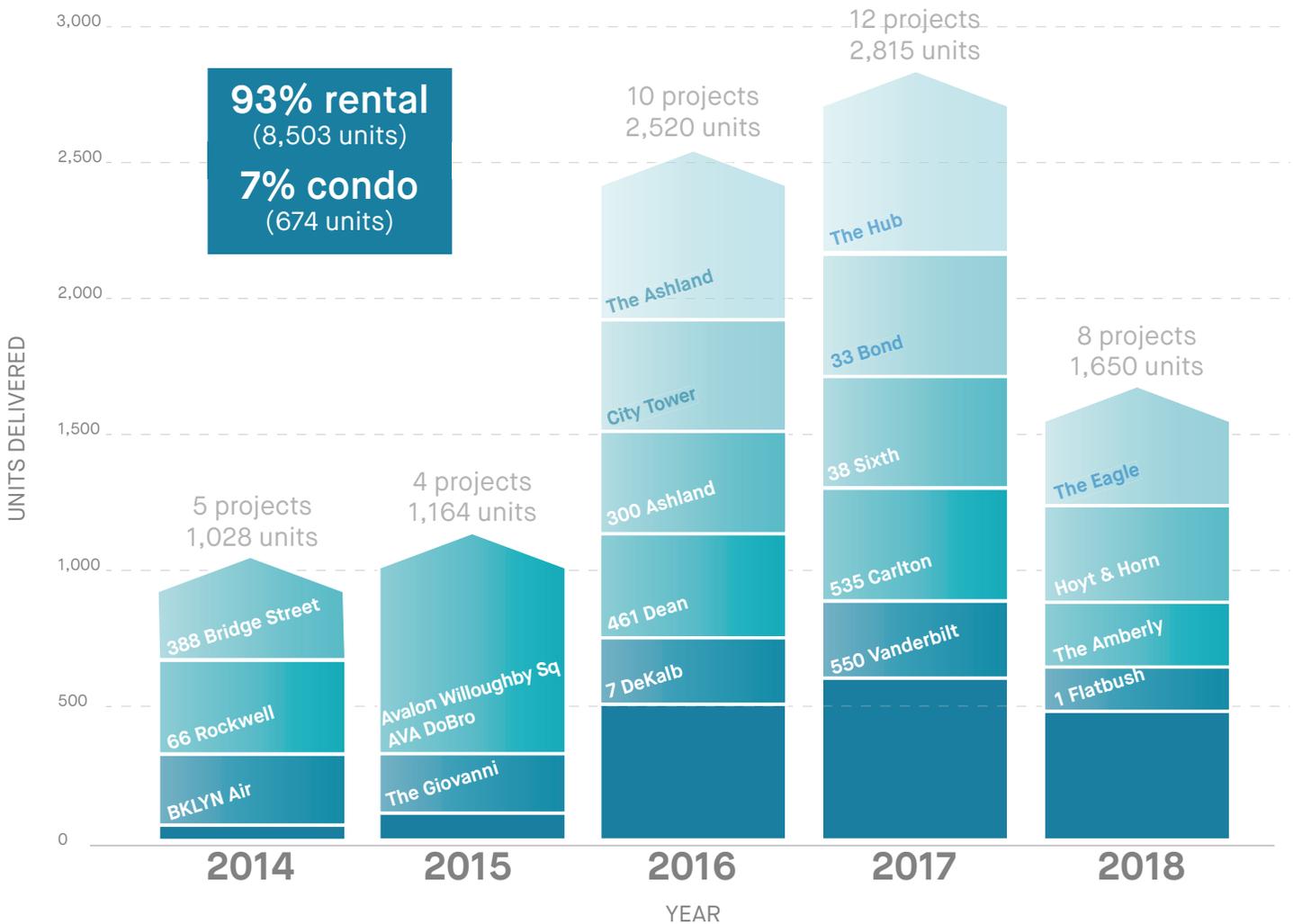
HOUSING PRODUCTION AND SUPPLY

Downtown Brooklyn has seen unprecedented residential growth since the rezoning, with the delivery of more than 14,000 new housing units across more than 70 developments, a supply increase of more than 11x.² While some new supply immediately followed the land use changes, including the majority of Downtown's new condominium units, the most significant growth has taken place in the past five years.

2014 marked a surge in the market with the delivery of projects that had been postponed during the recession,

followed by significant growth in new deliveries and proposed projects. In total, more than 9,100 new units were delivered between 2014 and 2018, coinciding with the growth of Brooklyn's population and economy. Downtown Brooklyn's new housing supply is a significant part of this growth: between 2014 and 2017, Downtown Brooklyn deliveries comprised 25% of the borough's new housing units.

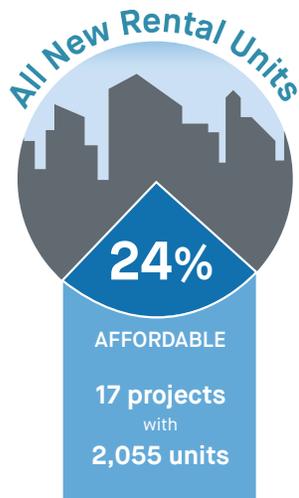
Growth in Downtown Brooklyn's Housing Supply, 2014–2018



² Source: Downtown Brooklyn Development FEIS, "Project Area," 2000 Census; which lists a baseline count of approximately 1,345 units.



Affordable Housing Delivery in Downtown Brooklyn, 2014-2018



New York City is in a housing crisis,³ and the creation of affordable housing is essential to maintaining Brooklyn's diversity and ensuring that a broader range of the population has access to Downtown Brooklyn's amenities and jobs.

Since 2014, more than 2,000 affordable housing units have been delivered in Downtown Brooklyn. These units represent the majority (81%) of all affordable units delivered following the rezoning. Affordable rental units make up 24% of all rental units delivered during the past five years. As of late 2018, more than 200 additional affordable units were under construction.

HOUSING DEMAND TRENDS

Absorption

Rental building owners report that demand is strong despite the recent influx of new units and increased competition, as indicated by lease-up periods that have met and often exceeded their expectations. Many new buildings stabilized within a year, with lease-up periods ranging from 4-5 months to 19-20 months.

- A building owner reported expecting about a year to stabilization, but completed in approximately 7 months - one of the fastest lease-ups in their portfolio, which includes several Manhattan properties

- Another owner reported an approximately 7-month lease-up period and noted that leasing traffic has been better in Downtown Brooklyn than in other projects across the city

Among buildings in DBP's survey that opened in the last five years, the majority report an absorption rate between 20 and 40 units per month. Absorption rates were generally higher among the largest buildings (150+ units), ranging between 17 and 76 units with an average rate of 32 units per month.

Building owners cite many factors that contribute to this high demand. Awareness of Brooklyn as a brand, and of Downtown Brooklyn as a desirable residential neighborhood, has grown over the past decade. Owners report that tenants are drawn to Downtown Brooklyn's proximity to Lower Manhattan; the availability of newer, larger units with better amenities at more competitive prices; and quality of life factors such as shopping and entertainment. Additionally, as the market diversifies and matures, the variety of housing stock - unit and building size, type and quality of amenities, and location - offers a range of options that appeal to a broader pool of potential renters, including a growing number of families with children.

Occupancy and Renewals

Despite the influx of new Downtown Brooklyn apartments since 2014, owners of both older and newer rental buildings report high occupancy levels (95%+) following stabilization.

- A building owner noted that a property in their portfolio has remained at 98-99% occupancy for the last several years since initial lease-up
- Another building owner with multiple Downtown Brooklyn developments stated that vacancy has been less than 5% across their portfolio as of late 2018

Owners report renewal rates of existing tenants varying between 50% and 90% annually, with many noting trends in tenants "building hopping" within the neighborhood. Many building owners report that when units are vacated, they are able to re-lease those units within an acceptable time period. For example, one building in DBP's survey had 50 vacancies in a given month, but only two units remained open a month later.

Overall, many building owners indicate that renewals and re-leases are achieving monthly rents that are within their expectations and in some cases, achieving increases over lease-up rents.

³ Source: The citywide rental vacancy rate is 3.63%, per the 2017 New York City Housing and Vacancy Survey. This is below the 5% vacancy rate threshold marking a "housing emergency."

At one building in DBP's survey, rents increased 11% between 2016 and 2017 for in-house renewals, and were expected to increase again in 2018. The renewal rent increase at another building was just under 5%.

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"High occupancy, coupled with the volume of new deliveries, indicates strength in the market," according to Jonathan Miller, President and CEO of real estate appraisal and consulting firm Miller Samuel Inc.

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Tenant Mix and the Maturing Market

Even with the recent increase in competition in the Downtown Brooklyn market, many building owners indicate that the new supply and accompanying residential growth and density have spurred placemaking improvements and additional amenities in the neighborhood that support leasing efforts and bolster demand.

Building owners report that demographics and household composition vary between buildings and even within buildings, as supply diversifies and the market matures. Generally, tenants are between 25 and 40 years of age, though some owners report interest from empty-nesters and some report significant graduate student populations. Demand from a mix of singles and couples as well as a growing number of families with children was also noted.

Owners report that new tenants move to Downtown Brooklyn from both Manhattan and other Brooklyn neighborhoods, as well as from other states and internationally as a result of relocation for school or work. Most tenants moving from Manhattan were previously living in the Financial District, the Upper East Side, or the Upper West Side. A few building owners also mention interest from tenants previously living in Jersey City and Hoboken.

Several building owners report that most of their tenants work in Manhattan. One building owner noted that half of their tenants work in the finance and media sectors in Lower Manhattan.

LOOKING AHEAD

High occupancy levels and short absorption timelines indicate that demand has kept pace with new housing production over the past five years. Given this strong and consistent demand for living in Downtown Brooklyn, future development projects have the potential to help alleviate the supply-side constraints currently facing the city.

At the end of 2018, more than 200 affordable rental units were under construction and an additional 1,000+ affordable rental units were planned. Key projects in the pipeline with affordable units include 90 Sands Street (508 affordable units, with 300 units set aside for formerly-homeless individuals), 80 Flatbush (200 affordable units), and 161 Ashland Place (140 affordable units).

As the Downtown Brooklyn market continues to mature, the construction pipeline has shifted to favor condominiums over rental projects. The number of condominium units under construction is more than double the number of rental units, with 1,600+ condominium units and less than 600 market-rate rental units underway as of late 2018. However, major projects slated for development such as Pacific Park and 80 Flatbush will bring thousands of additional rental units to Downtown Brooklyn in the coming years.⁶

Produced by Downtown Brooklyn Partnership, January 2019

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CONCESSIONS AND PRICING TRENDS

According to StreetEasy, median monthly asking rent in Downtown Brooklyn rose by 15%, from \$2,900 in December 2013 to \$3,329 in December 2018⁴, despite a high prevalence of concessions (63% of units on the market in May 2018 offered a concession⁵). Aggregate rents have risen across the Downtown Brooklyn market as the mix of units shifts to include new product favorable to the area. "The phenomenon of rising rents is partially attributable to the quality of housing stock seeing significant improvement over time," notes Jonathan Miller.

Building owners use rent concessions and pricing strategies as marketing tools to quicken the pace of lease up and adjust occupancy in line with the market, rather than a response to weak demand or lack of interest from prospective tenants. Most building owners report that they vary concession packages during the lease-up period but in general, concession amounts range from one to two months of free rent on a 12- to 14-month lease term.

Owners report that offering concessions and discounts for renewals or vacated units is less common than offering concessions during lease-up. Some buildings offer lower-value incentives to retain or attract new tenants, such as waived amenity fees.

⁴ Source: StreetEasy. Data is derived from all rental listings available during the given time period and includes primarily market-rate units.

⁵ Source: StreetEasy.

⁶ Source: DBP Development Matrix.

APPENDIX

Downtown Brooklyn Housing Deliveries, 2014–2018

	TYPE	TOTAL UNITS	PROJECT NAME	DEVELOPER	NUMBER OF UNITS		
					CONDO	MARKET RATE RENTAL	AFFORDABLE RENTAL
2014	Condo	9	9 Townhouses	Time Equities / Hamlin Ventures	9		
	Condo/Rental	378	388 Bridge Street	Stahl Real Estate	144	186	48
	Rental	255	BKLYN Air	Lalezarian Properties		255	
	Rental	326	66 Rockwell	The Dermot Company		263	63
	Rental	60	267 Pacific	Quinlan Development / Lonicera Partners		60	
2015	Rental	103	Warehouse 180	Pink Stone Capital		103	
	Rental	826	Avalon Willoughby Square / AVA DoBro	Avalon Bay Communities		826	
	Rental	205	The Giovanni	Red Apple Group		205	
	Rental	30	72 W Lofts	YH Willoughby LLC		30	
2016	Condo	128	The Boerum	Flank Development / The Carlyle Group	128		
	Rental	228	The Margo	Red Apple Group		186	42
	Rental	62	172 Montague	Eli Stoll / Charles Dayan		62	
	Rental	362	461 Dean	Forest City Realty Trust		181	181
	Rental	250	7 DeKalb	Albee Development LLC		50	200
	Rental	439	City Tower	The Brodsky Organization		439	
	Rental	586	The Ashland	Gotham Organization		304	282
	Rental	379	300 Ashland	Two Trees Management Co. LLC		303	76
	Rental	64	60 Duffield	The Chetrit Group / Read Property Group		64	
	Rental	22	333 Atlantic Avenue	Tsoumpas Realty		22	
2017	Condo	5	State + Bond Townhouses	Adam America Real Estate	5		
	Condo	278	550 Vanderbilt	Greenland Forest City Partners	278		
	Condo	74	The Nevins	Adam America Real Estate	74		
	Condo	30	465 Pacific	Avery Hall Investments / Aria Development Group	30		
	Rental	108	The Lane at Boerum Place	Quinlan Development / Lonicera Partners		86	22
	Rental	750	The Hub	Steiner NYC		600	150
	Rental	121	The Offerman House	United American Land		121	
	Rental	714	33 Bond	TF Cornerstone		535	179
	Rental	298	535 Carlton	Greenland Forest City Partners			298
	Rental	303	38 Sixth	Greenland Forest City Partners			303
	Rental	60	153 Remsen	Quinlan Development Group / Lonicera Partners		60	
	Rental	74	241 Atlantic	CAC Atlantic, LLC		74	
2018	Condo	6	187 Bridge Street	New York Major Construction Corp.	6		
	Rental	368	Hoyt & Horn	Rose Associates / Benenson Capital Partners		294	74
	Rental	440	The Eagle	Red Apple Group		411	29
	Rental	150	The Azure	All Year Management / Spencer Equity		150	
	Rental	110	BRiQ	CBZ Management		88	22
	Rental	123	Caesura	Jonathan Rose Companies		74	49
	Rental	270	The Amberly	AmTrust Realty		270	
	Rental	183	1 Flatbush	Slate Property Group		146	37

This report covers the area bounded by Court Street, Flushing Avenue, Fort Greene Place, and Pacific Street in addition to the Pacific Park development project. DBP conducted quantitative and qualitative research to produce this report, including verifying delivery data with NYC Department of Buildings (DOB) records and affordable housing data with NYC Department of Housing Preservation and Development (HPD). Additionally, DBP reviewed data on rental rates from StreetEasy and MNS, and interviewed more than a dozen real estate development and leasing professionals representing more than two-thirds of new rental units.