

THE TECH EFFECT

 **GFI** REALTY SERVICES, LLC
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MARKET REPORT | Q1 2019





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INTRODUCTION

New York City's growth as a major tech hub is well-documented, as the local expansions of Apple, Google and Amazon (albeit temporary) have received considerable attention. But beyond serving as an outpost for Silicon Valley firms, the city is now being dubbed "the top home for tech startups" in large part because of a significant cadre of truly homegrown tech companies, including **Vice Media**, **Etsy**, **Kickstarter**, **Livestream** and **Blue Apron**. Each of these firms has had a positive impact on the real estate market, and has resulted in the investment of capital into specific submarkets to create commercial and residential product that accommodates the employees who work at the various firms. Although real estate investment has slowed since the market peak in 2015, it does seem to be turning a corner, and the job growth brought about through the tech sector is definitely one of the positive drivers.

The most notable example of tech's interface with real estate was the much-discussed ripple effect of Amazon's short-lived November decision to move into a projected eight-million-square-foot headquarters facility in Long Island City, which immediately drove up residential pricing as well as investment activity around the neighborhood. However, we're seeing

the same dynamic with smaller-scale tech companies, which have attracted capital into markets that might otherwise have been overlooked.

For example, Industry City, located in Sunset Park, has already created more than 8,000 jobs and has played a major role in the city developing more transportation

options, including the NYC Ferry and the continued push for the Brooklyn Queens Connector (BQX) light rail.

Also noteworthy is the extent of the growth of co-working in the outer boroughs. For example, co-working outposts **Work-Heights**, **Ignita Office** and **Compound Cowork** are all located in Crown Heights, a neighborhood that's still rising to new levels. With respect to technology companies and their employees, the desire to live, work and play all in the same place has become paramount.

The result we're now seeing is residential developers are shifting their traditional model of amenities and

shared spaces to keep up with tenant demand; in many cases, that has meant switching from common areas to shared workspace.

Co-working and co-living complexes are often associated with technology companies, which cater to the living patterns of a new generation. As the technology industry continues to entrench itself in New York City real estate, the mandate for developers is not simply to get creative, but to provide a product that meets the demand of the new denizens of New York.

TECH GROWTH'S POSITIVE IMPACT ON REAL ESTATE

In what could perhaps be termed the beginning of a movement in more ways than one, crowdfunding platform **Kickstarter** moved from the Lower East Side to the burgeoning neighborhood of Greenpoint in 2012, setting the neighborhood on the path to becoming the hub of tech, media, advertising and information (TAMI) companies that it is today. Important as Kickstarter's move to Brooklyn was, they were not the first *new-age* tech company in Brooklyn. Etsy, the publicly traded e-commerce platform, which now houses 800-plus employees in a 200,000-square-foot headquarters in DUMBO was launched back in 2005 out of a Brooklyn apartment. Additionally, going back even further, Vice Media has been based out of Williamsburg since 2001. These three groundbreaking tech companies are each headquartered in three predominant Brooklyn subsections; three subsections where breaking ground is still a frequent occurrence.

However, it was the relocation of Kickstarter's headquarters that put even more weight behind the notion that the future growth of tech companies in NYC could happen outside of Manhattan. The move was a result of not only access to more square footage, but to more accommodating space. The move from Manhattan was notable, not just for the move itself, but for the rationale. At the time of the relocation, Kickstarter had approximately 45 employees, three quarters of which lived in North Brooklyn, a statistic that was publicly stated as playing a large role in the decision for the move.

This decision to relocate into Greenpoint became notable because it demonstrated that business owners were now seeing a bigger picture. It forced the hands of developers and made them take a fresh approach in looking at how, where and why to invest in particular neighborhoods. Somewhat reminiscent to Silicon Valley's office-designed incubators, neighborhood incubators like DUMBO became the areas where young companies and their employee pool wanted to be in and around. As a result, many Brooklyn neighborhoods inadvertently became live-work-play environments, a model that further reinforced investors' confidence in them. **For developers, the directive became to build where the young**

companies were and where their employees resided. With that mandate, concerns over absorption rates abated, with the key questions becoming how quickly they could buy and build in the respective neighborhoods.

In 2019, the residential pipeline in Greenpoint is vast. Projects such as **Greenpoint Landing** and **Halcyon Management Group's** three-tower complex at **27-37 West Street** are bringing thousands of new apartments into the neighborhood to potentially house employees of not only the neighborhood-born tech companies but the companies founded in many of the surrounding areas, including Williamsburg, Bushwick, The Brooklyn Navy Yard and Long Island City.

With tech companies moving to the outer boroughs and others being founded there, the real estate world has had a significant boomerang effect, as investors are creating not only more office space but more residential space as well. Areas like Long Island City, DUMBO and Sunset Park may be known as incubators for the growth of technology, but in truth they are also fostering the growth of investment real estate, commercial and residential alike.



THE NEIGHBORHOODS, COMPANIES & RESULTS



GREENPOINT

When it comes to the tech transformation in the outer boroughs, the aforementioned neighborhood of Greenpoint is a natural starting point. Beyond Kickstarter's trendsetting move, one can also point to the innovative **Greenpoint Pictures**, a film and visual music production studio that has been behind the scenes in the neighborhood for over a decade, and has made waves throughout the industry.

Also noteworthy is **Atlas Obscura**, a Greenpoint-based web media company that grants user's access to traditionally unknown, or *off the map* locations in Brooklyn that wouldn't typically be discussed by a tour guide. Atlas Obscura is a particularly noteworthy part of the story of Brooklyn's tech growth, in that it demonstrates how companies born and bred in the borough can provide something that imported firms can't offer; an inside look.

In evaluating the growth of Greenpoint and the size of its residential pipeline, the success of TAMI companies is a major factor. The area, much like other parts of Brooklyn, has quickly transformed from a residential area on the rise to one that has attracted a significant amount of high-profile companies driving continued residential development.



WILLIAMSBURG

Moving south from Greenpoint to Williamsburg there is significant residential activity in the neighborhood that is also emblematic of the relationship between the tech industry and real estate development. In addition to **Vice Media**, Williamsburg is home to prominent tech companies such as the e-commerce rebel **Bulletin**. Born and bred in *The Burg*, Bulletin's mission is to disrupt the *new normal* for conducting business, and it achieves this goal by helping online retail businesses move beyond e-commerce and into physical locations.

This is not only important for Williamsburg, which garners some of the highest retail rents in Brooklyn, but for businesses in many locales. Without a physical presence of some sort, a retailer's consumer base can have trouble understanding how they can obtain exactly what they're looking for. A prime example of this is **Warby Parker**, the online eyeglass company with a Brooklyn outpost in **Cobble Hill**. Warby Parker understood from the onset of the e-commerce boom that, without brick and mortar, a brand can lose relevance. While consumers may be attracted to the convenience of e-commerce, by and large, they also like the experience provided by brick-and-mortar stores.

For residents, visitors and tourists, Williamsburg is a neighborhood built on experience. Although

Warby Parker may not have a Williamsburg outpost, Bulletin does, which opens the doors for retailers and perhaps even more so, for real estate investors. When a neighborhood becomes a shopping destination as much as it is a residential hotspot, investors may need to use more creativity in order to get a deal done, ultimately though, the businesses that thrive inside the neighborhood act as a rising tide that lifts all ships when it comes to the area's real estate.

With the area's growth as a tech hub, it is no surprise to see the Williamsburg real-estate boom continue, highlighted by **25 Kent Avenue**, a 500,000-square-foot ground-up office, manufacturing and retail complex being developed by both **Rubenstein Partners** and **Heritage Equity Partners**. Located on the Brooklyn waterfront, the modern, innovative structure includes floor to ceiling windows, terraces on each floor, an expansive rooftop and food and beverage vendors on the ground floor.

In addition to 25 Kent, at **209 Havemeyer Street**, **Charney Construction and Development** in partnership with **Tavros Capital Partners** are constructing a 23-story mixed-use tower dubbed **The Dime**. Incorporating the iconic Dime Savings Bank of Williamsburg, the new 350,000-square-foot tower will consist of 178 apartments, 100,000-square-feet of office space and 55,000-square-feet of ground floor retail space designed for food and beverage services. This is a great example of investors developing a project that embraces the live-work-play environment.



BUSHWICK

Bushwick, a North Brooklyn enclave southeast of Williamsburg, is another neighborhood that's become a breeding ground for both technology companies and real estate investment, commercial and residential alike. Taking a page from the Williamsburg playbook, Bushwick still has much of Brooklyn's unique flavor, which is desired by the creative employee pool and also offers a host of neighborhood amenities. This unique Brooklyn subsection has led to the incubation of a host of startup companies like **Meridio**, a web-based company that's linking blockchain directly into the real estate industry.

The current incubation happening in Bushwick has led to the commercial development of projects such as **1333 Broadway**, which is a commercial project being developed by **Heritage Equity Partners**. Permits were filed last May for the six-story, 58,480-square-foot corner building which will include over 39,000-square-feet of office space. At **95 Evergreen**, **Savanna** and **Hornig Capital's** project are repositioning a former brewery into 158,000-square-feet of office space. The joint venture sold the ground beneath the building to Dallas-based **Bamrock Real Estate** and then ground-leased it back. But while the developers leased the property to NYC's Human Resources Department, the line that's been drawn in the sand is clear. Tech companies breed commercial development, which both drives and benefits from residential development, thereby creating new and vibrant neighborhoods.

Developer Yoel Goldman's **All Year Management** is also making waves with the redevelopment of the **Rheingold Brewery**, a 433-unit, mixed-use rental project. Other projects in the works include **1411 Bushwick Avenue**, where **Threefold Development** is bringing a six-story, boutique residential building to the neighborhood on the site of a former walk-up. From large complexes to more quaint residences, the reinvigorated Bushwick is creating a wide range of housing opportunities for employees of local tech companies like **Meridio**, **Nooklyn** and **Livestream**, the latter of which is based in East Williamsburg.



BROOKLYN NAVY YARD

Moving further south, one group of neighborhoods most representative of the story of Brooklyn's tech growth is the "Tech Triangle" - The Brooklyn Navy Yard (BNY), DUMBO and Downtown Brooklyn.

Starting with **The BNY**, the former US Naval Yard has become home to many companies, driving a tremendous amount of job growth, and creating a positive spillover effect that has led to commercial and residential investment throughout the surrounding area.

With approximately 8,500 people working on the site in fields ranging from robotics to film production, tech companies are thriving in the still growing, 300-acre industrial site, which is expected to employ 20,000 people upon the completion of a significant amount of development, including creative office space in Dock 72 and Building 77. From large companies such as **Steiner Studios** and **Crye Precision** (another company that moved from Manhattan to accommodate its growth) to Brooklyn-born tech startups like **KISI**, the BNY is well positioned for growth, as the tech sector in Brooklyn continues its ascendance.

Residential and commercial investment is also growing in the surrounding neighborhoods. One notable transaction was **Madison Realty Capital's** \$26-million acquisition of **29 Ryerson Street**, which is being repositioned into "**Turbine**", a 12-story, 280,000-square-foot structure with state-of-the-art creative office space. The Wired NYC-certified structure includes amenities

such as a glass atrium lobby, rooftop garden and private terraces – architectural improvements that are specifically designed to help bring in creative commercial tenants.

The BNY's boomerang effect is also apparent on the residential side, with a pipeline that includes projects such as Chelsea-based **Ranger Properties'** planned nine-story, 112-unit mixed-use building at **445 Grand Avenue**, approximately 1.5 miles south of the BNY.

Beyond The BNY, Ranger Properties' outer borough portfolio includes residential properties at **167 Willoughby**, located in the southern corner of Downtown Brooklyn, as well as **The Lanes** - a community within itself - in Long Island City. Notably, these properties are all situated around a growing base of technology hubs.



DUMBO

In a borough now known for its innovation, DUMBO can aptly be called the greatest incubator in Brooklyn because of the large number of prominent tech companies it has produced, including **Big Spaceship**, **Blankslate** and **Etsy**.

The resulting commercial and residential development that has benefited this tech hub has been significant and impactful. With eclectic attractive design and targeted robust amenity packages, the real estate community has helped ensure that DUMBO, and its surrounding subsections, will always remain on the cutting edge.

There are several projects that clearly demonstrate

DUMBO's synergistic nature, and how different projects directly (or indirectly) support each other. One notable example is **DUMBO Heights**, a five-building, creative office campus, just blocks from **Empire Stores**, which accentuates the game-changing nature of the residential development at **85 Jay Street**. These developments provide just one example of the ability of office, retail and residential to bolster each other and collectively create neighborhood growth. Three different sectors of investment real estate have ended up working together to reach the ultimate goal; growth.



SUNSET PARK

While Sunset Park has seen some activity in the past few years, until now the residential sector has yet to peak. However, with so many people commuting to the neighborhood every day, that is finally starting to change. With significant industry drivers, Sunset Park now has all the pieces in place to begin attracting more investment.

One of the biggest drivers for residential development is **Industry City**, the six-million-square-foot, 16-building industrial complex from a visionary ownership group consisting of **Belvedere Capital**, **Jamestown Properties** and **Angelo Gordon & Co.** The joint venture has reshaped the neighborhood and led to specific changes in demographics, infrastructure as well as public and private investment.

In addition to the 20,000-plus jobs that are on track to be provided via Industry City over the next few

years, Sunset Park is also home to tech, industry and e-commerce centers such as Bush Terminal, Liberty View and the Brooklyn Army Terminal. These projects have re-inserted South Brooklyn into the forefront of the industry, by bringing tens of thousands of jobs to the area. Large tech companies like **AECOM** and **Dynamic Data Concepts** both have outposts in Industry City, and e-commerce superstar **Uncommon Goods** moved there, expanding its operations and moving from Manhattan to the Brooklyn Army Terminal. Expected to open next year is **The Made in NY Campus** at Bush Terminal which, with the help of city investment, will be renovating and building a 100,000 square foot film and television production facility.

With innovation booming in Sunset Park, the city's hand has been forced when it comes to infrastructure, and Sunset Park recently received a new stop on the East River Ferry to service the multitude of women and men employed in the neighborhood. The neighborhood's growth has also become a large factor in the continued push for funding the BQX light rail system.

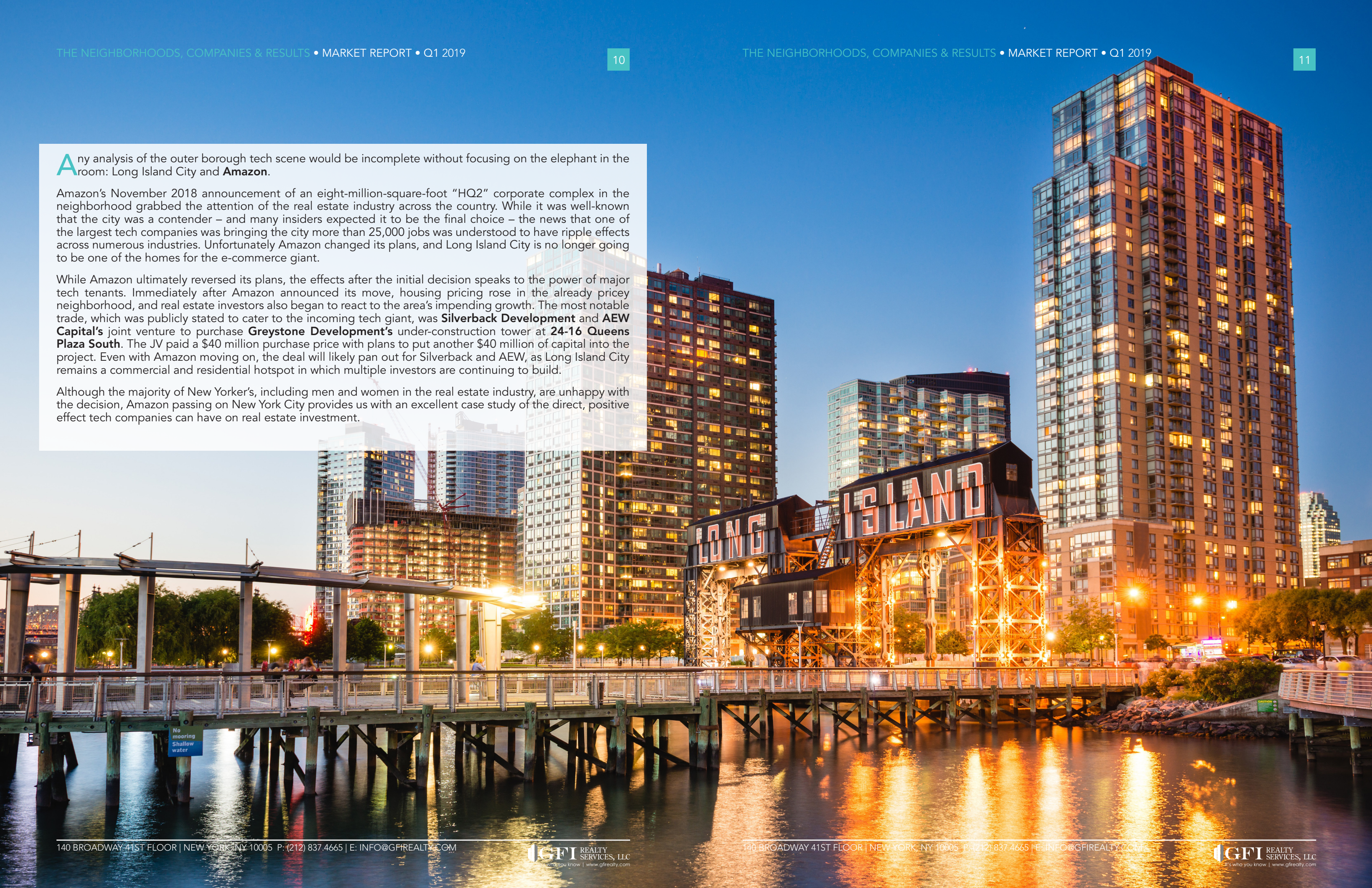
With the creation of thousands of jobs at the aforementioned creative office complexes, housing pricing have seen a significant spike in the neighborhood and unsurprisingly this has attracted significant investment. With the desire to live, work and play in one neighborhood likely to continue, Sunset Park should see a wave of residential development in the years ahead.

Any analysis of the outer borough tech scene would be incomplete without focusing on the elephant in the room: Long Island City and **Amazon**.

Amazon's November 2018 announcement of an eight-million-square-foot "HQ2" corporate complex in the neighborhood grabbed the attention of the real estate industry across the country. While it was well-known that the city was a contender – and many insiders expected it to be the final choice – the news that one of the largest tech companies was bringing the city more than 25,000 jobs was understood to have ripple effects across numerous industries. Unfortunately Amazon changed its plans, and Long Island City is no longer going to be one of the homes for the e-commerce giant.

While Amazon ultimately reversed its plans, the effects after the initial decision speaks to the power of major tech tenants. Immediately after Amazon announced its move, housing pricing rose in the already pricey neighborhood, and real estate investors also began to react to the area's impending growth. The most notable trade, which was publicly stated to cater to the incoming tech giant, was **Silverback Development** and **AEW Capital's** joint venture to purchase **Greystone Development's** under-construction tower at **24-16 Queens Plaza South**. The JV paid a \$40 million purchase price with plans to put another \$40 million of capital into the project. Even with Amazon moving on, the deal will likely pan out for Silverback and AEW, as Long Island City remains a commercial and residential hotspot in which multiple investors are continuing to build.

Although the majority of New Yorker's, including men and women in the real estate industry, are unhappy with the decision, Amazon passing on New York City provides us with an excellent case study of the direct, positive effect tech companies can have on real estate investment.



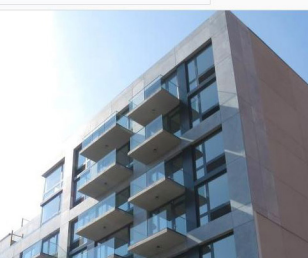


PREDICTIONS FOR TOMORROW

Much of the tech growth seen in New York City in the past five plus years has been clearly tied to the trend of these firms finding space that accommodates employees living, working and playing within a relatively small area. The multiple moves of Manhattan-based companies to the outer boroughs combined with the proliferation of startups being founded in these submarkets is quite notable, demonstrating their true status as a tech incubators. Additionally, with the success of both the commercial and residential sectors, each contributing to the other's growth, it is no surprise that businesses and real estate investors alike have begun to view many neighborhoods in Brooklyn and Queens in an entirely new light.

When Kickstarter made the decision to move its headquarters from the Lower East Side to Greenpoint, bringing it closer to its employees, the move was fairly unique. However, in the following years, that decision was emulated by a range of other TAMI firms and subsequently real estate investment in the outer boroughs has increased exponentially. As technology continues to grow in new neighborhoods, savvy developers will continue to build in the same areas, catering to the thousands of new employees that are lining up to grow alongside their employers.

RECENT SALES



\$69,200,000

670 Pacific Street
Brooklyn, NY
86 Apts



\$46,000,000

320-328 Ocean Parkway,
420 Avenue F & 2302
85th Street, Brooklyn, NY
145 Apts



\$26,700,000

11 Crooke Avenue &
111 Woodruff Avenue
Brooklyn, NY
89 Apts



\$4,500,000

347 Pacific Street
Brooklyn, NY
10 Apts



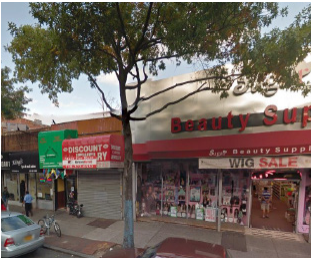
\$10,650,000

337 Ocean Parkway
Brooklyn, NY
46 Apts



\$12,550,000

218 74th Street
Brooklyn, NY
46 Apts



\$9,650,000

757-767 Flatbush Avenue
Brooklyn, NY
Single-Story Taxpayer



\$10,200,000

1032-1038 Flatbush Avenue
Brooklyn, NY
NNN Lease
Crunch Fitness & Taco Bell



\$15,500,000

2261 Ocean Avenue
Brooklyn, NY
54 Apts



\$10,400,000

2031 & 2233 Ocean Ave
Brooklyn, NY
47 Apts



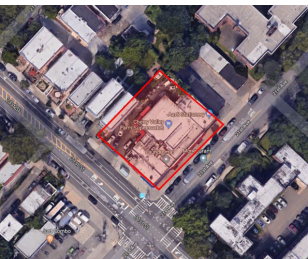
\$10,300,000

880 Central Avenue
Scarsdale, NY
Net Lease Ameritrade



\$8,000,000

1865 77th Street
Brooklyn, NY
37 Apts



\$4,325,000

21-02 21st Street
Queens, NY
Development Site



\$1,975,000

503 Grandview Avenue
Queens, NY
4 Apts



\$1,875,000

2320 Hughes Avenue
Bronx, NY
6 Apts & 2 Stores



\$1,375,000

87-48 78th Street
Queens, NY
2 Apts & 5 Commercial Units

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For more than three decades, GFI Realty Services, LLC has been one of the most active commercial real estate advisory firms in New York City. Adept at arranging investment sales transactions of all sizes, the firm provides clients with sophisticated strategies at every step of the process. An industry leader in arranging off-market deals, GFI leverages its relationships with a vast network of property owners and investors to identify a customized pool of buyers for each individual property. The firm's experience with a diverse cross-section of real estate transactions has given GFI a deep understanding of niche specialties such as net-leased properties and real estate financing.

GFI's team of 30 experienced brokers possesses an unparalleled knowledge of neighborhoods across the five boroughs, including subsections of Upper Manhattan, Brooklyn, Queens and The Bronx, and its brokers have arranged record-setting transactions in many neighborhoods. The company encourages collaboration among its brokers, ensuring that the firm's combined expertise can be tapped into to fulfill the objectives of any client. GFI was recognized in 2017 as one of the best places to work in Crain's New York Business, and is consistently ranked among the top New York City investment sales brokerages by The Real Deal. For more information, visit GFIRealty.com.

it's who you know.



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