

GOING

GOWANUS

The Gentrification Of A Superfund Site



GOWANUS

MARKET REPORT Q3 2016

The Investment Attraction: Why Now?
The Economic Uptick
Retail/Restaurants
The Canal, The Cleanup & The Community
City Layed Groundwork/The Rezoning/
Residential Development
What's Next?

GOING GOWANUS

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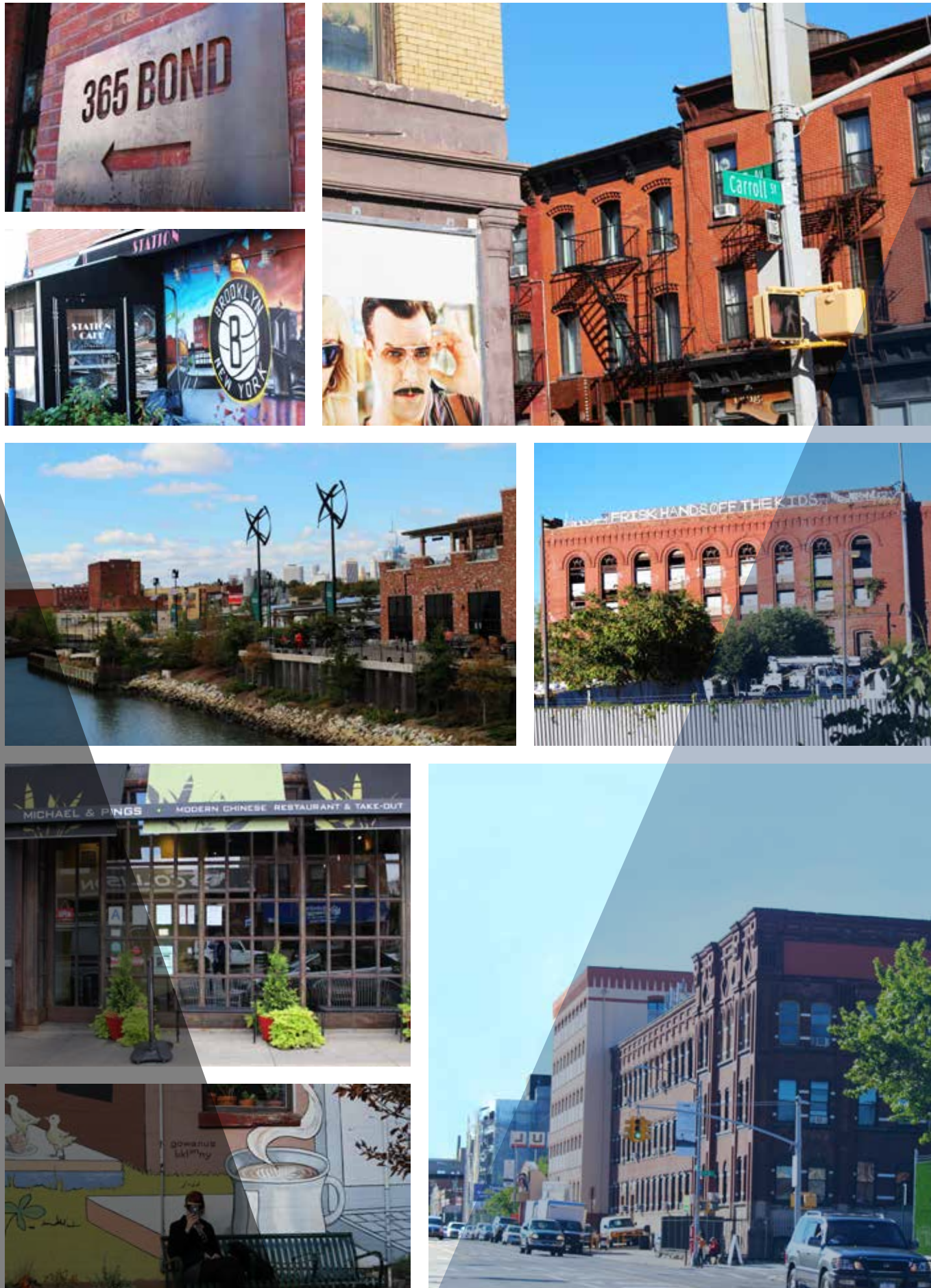
Introduction



An industrial section of Brooklyn that sits between the prime neighborhoods of Carroll Gardens, Cobble Hill and Park Slope, Gowanus is infamously known for its 1.8-mile polluted canal. However, the area has seen a significant economic uptick driven by a boom of hospitality and commercial development, as well as an influx of speculative residential construction on the horizon. Though Gowanus is only now beginning its first wave of revitalization, its geography makes it ideal for capitalizing on the “spillover effect” of surrounding neighborhoods. Increasingly popular Park Slope, Carroll Gardens, Cobble Hill and Boerum Hill are all on Gowanus’ outskirts, and the increasing vitality of these areas is driving residents and prospective residents to Gowanus, which can still provide housing options that are more affordable.

Due to this theorized spillover effect, over the last several years Gowanus has been under a spotlight, and its residential community has grown while demographics have begun to shift. In response to the pressures of gentrification, multiple community groups, specifically “Bridging Gowanus” have been working toward influencing how this transitional neighborhood is reshaped. Geographically, Gowanus is situated perfectly to follow the blueprint of its Brooklyn neighbors, but the area is still dealing with the issue of the industrial zoning that is still in place for a substantial section of the neighborhood.

Despite the lack of residential zoning, the emerging scene that encapsulates Gowanus is definitely real. And with the influx of investment capital that’s been continuously flowing into the neighborhood, it has become clear that the market is not waiting for the impending policy changes. The transition of Gowanus has already begun.



The Investment Attraction: Why Now?

BROOKLYN HEIGHTS

CARROLL GARDENS

RED HOOK

GOWANUS

PARK SLOPE

GREENWOOD

The Investment Attraction: Why Now?

For years, most investors and potential residents could not see beyond the pollution level of the Gowanus Canal and the brownfield sites that run alongside it. The general opinion was that the contaminated waterway was obstructing rezoning and jeopardizing any chances the area might have of seeing real growth. Additionally, while housing prices rose significantly in surrounding neighborhoods, Gowanus prices slightly lagged. The canal issue however was somewhat laid to rest when the Gowanus Canal was officially designated as a Superfund site by the Environmental Protection Agency (EPA) in 2010. **The \$500-million cleanup of the toxic waterway began in 2016, and, through funding by the City of New York as well as local and national organizations, this highly-anticipated project will be completed in three phases between 2018 and 2022.**

Gowanus' transportation options are up to par with those of surrounding neighborhoods. In addition to the F, G, D, N and R trains, straphangers in Gowanus are just one or two stops away from the Atlantic Avenue-Barclays Center transit hub, which offers access to the 2, 3, 4 and 5 trains, as well as the LIRR. But while the MTA's subway and bus offerings provide respectable transportation options, residents would benefit from additional means of public transit. In line with Mayor de Blasio's push for a more expansive ferry system, there's a strong possibility that once the canal has been cleaned up, the city will add ferry stops in Gowanus along the canal, which would cater to the new waterfront and off-street developments coming to the area.

Additionally, if the Department of City Planning (DCP) passes its expected rezoning, Mayor de Blasio will have even more ammunition for his \$2.5-billion proposal for the Brooklyn Queens Connector (BQX), the proposed streetcar that would run along the waterfront from Astoria to Sunset Park. The BQX has received strong support from many Brooklyn commercial power players, and, if implemented, would give Gowanus yet another transportation option.

Meanwhile, the industrial zoning that has made residential development in the neighborhood nearly impossible has actually opened the doors for other sectors of the market and drawn some businesses to the area. While the manufacturing zoning designation might be expected to hold the neighborhood back, savvy investors have recognized Gowanus' convenient proximity to the boom-

ing residential hubs that are Boerum Hill, Carroll Gardens, Cobble Hill and Park Slope. These investors have acquired M-Zoned lots that previously housed Brooklyn's bustling manufacturing businesses, and have repositioned them as hospitality and commercial properties that form the backbone of the area's economic uptick. These new facilities serve to amenitize the surrounding "prime" neighborhoods, which, in turn, helps them to thrive, and leads to the previously mentioned spillover effect that is increasing demand for Gowanus residences.

However, the most important cause for Gowanus' investment draw is the proposed residential and mixed-use rezoning that is now officially being considered. Although the proposal is being challenged, studied and looked at from multiple perspectives, its importance is paramount, as the shift from industrial zoning to residential and mixed-use zoning led to the successful revitalizations in the former industrial areas of Williamsburg and Long Island City.

While a rezoning study for Gowanus was considered several years ago, the notion was put on the backburner at that time due to economic instability as well as the 2010 Superfund site status the area received. Over the last few years, however, there has been a growing sense of anticipation and planning in some circles, and increased concern in others, as different parties consider the potential ramifications the DCP's final plans will have on the neighborhood.



The Economic Uptick

BROOKLYN HEIGHTS

WHOLE FOODS MARKET

CARROLL GARDENS

RED HOOK

GOWANUS

PARK SLOPE

GREENWOOD

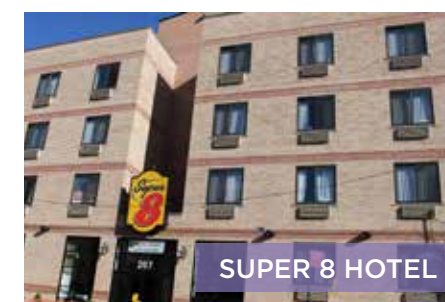
The Economic Uptick



HOTEL LE BLEU



HOLIDAY INN EXPRESS



SUPER 8 HOTEL

The economic uptick in Gowanus did not happen overnight, although as an M-Zoned industrial neighborhood with few residential structures, the slow pace of the area's rise to prominence comes as little surprise. **In addition to the introduction of Whole Foods to the neighborhood, one facet that really helped Gowanus' ascendance is through the M-Zone loophole for hotel structures.** The area is now home to national flags such as **Holiday Inn Express**, **Fairfield Marriott**, and **Super 8**, and it was precisely Gowanus' lack of residential zoning that allowed for hoteliers to convert vacant lots and warehouses into temporary lodging for visitors.

In addition to the chain lodging that has gone up in the neighborhood, Gowanus is also home to numerous boutique hotels, with others in the development pipeline. The most prolific Gowanus hotel developer is Alec Shtromandel, who has opened the doors to the **Union Hotel** at 611 DeGraw Street; broken ground on the **Gowanus Inn & Yard** at 645 Union Street, just east of the corner of 3rd Avenue; and filed plans for the **Baltic Huis**, a 7-story, 34-key hotel coming to 489 Baltic Street.

Another hotelier that is capitalizing on the area's newfound boutique hotel trend is Globiewest Hospitality. Globiewest Hospitality is the developer behind the successful, upscale **Hotel Le Bleu**, as well as a 6-story 578-key project under construction a block away at 399 3rd Avenue. Globiewest was also behind the **Hotel Le Jolie** on Meeker Avenue in Williamsburg.

Additionally it should be noted that developers such as Sam Boymelgreen, Miriam Chan and RJ hospitality all have plans filed plans to construct new, high-end and boutique hotels in the area. Although all three projects are still in the early stages, Gowanus is definitely going to start looking quite different.

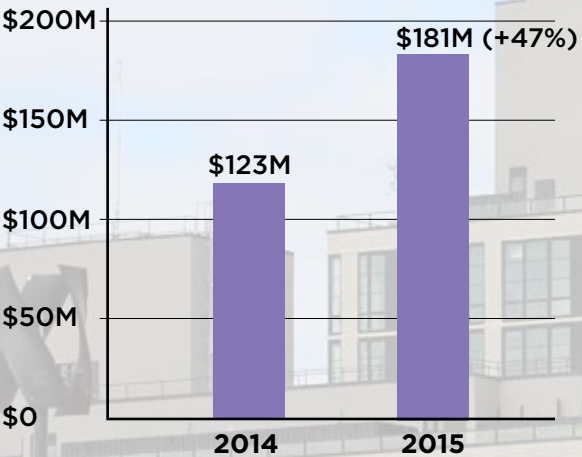
It's not just the developers putting up hotels that are placing Gowanus on the map; the recent trend of former industrial spaces being converted to office space has played a large part as well. As explored in our previous market report entitled "**Brooklyn: The Bridge to the Future**", we discovered that Gowanus was one of the Brooklyn neighborhoods being targeted for office space development.

One notable project in the neighborhood was the 2015 purchase of 90,000 square-foot rehabbed property (formerly owned by Kushner Companies) by Sampson Management, fully leased with tenants such as Co.Workers and Genius Media.

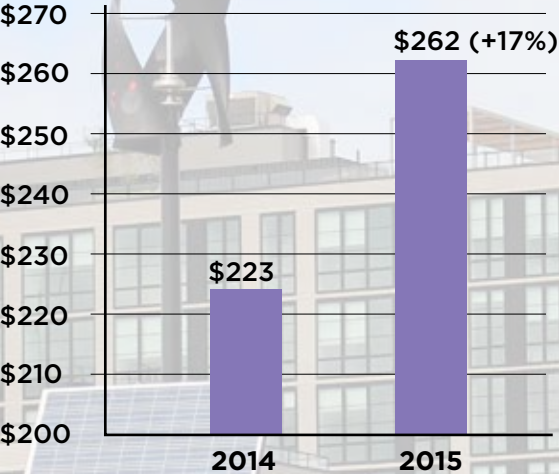
In addition to Sampson Management’s 2015 acquisition, Industrie Capital Partners recently announced its leasing campaign for the largest mixed-use office development in Gowanus. Rouston House will deliver 200,000-square-feet of class A office space to cater to the growing population of TAMI companies seeking out Brooklyn office space.

For a couple of years now, young tech-based companies have been taking advantage of the slightly discounted office space that Gowanus has to offer and we see no reason for this trend to slow.

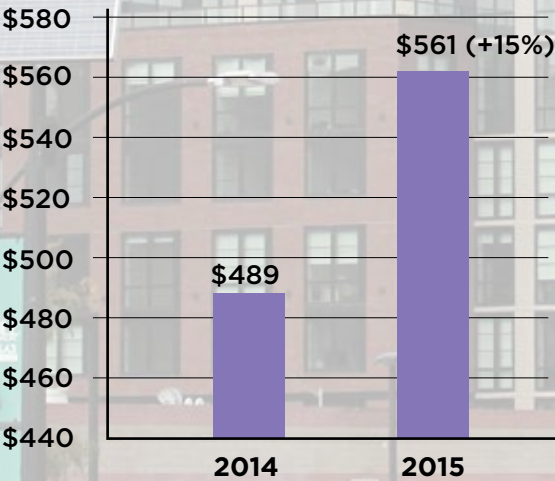
GOWANUS: Investment Sales



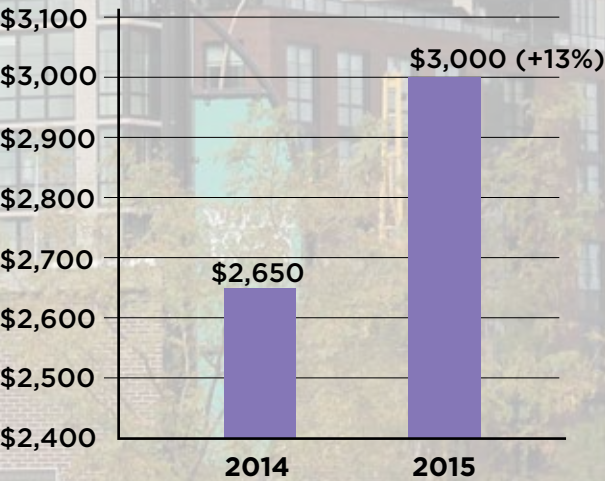
GOWANUS: Average Price Per Buildable Square Foot



GOWANUS: Multifamily Price Per Square Foot



GOWANUS: Median Rental Pricing



Retail/ Restaurants



Retail/Restaurants

The influx of restaurants opening in Gowanus, especially high-end spots you'd expect to see to the east in Park Slope or to the west in Carroll Gardens, seems to surprise some critics. However, the restaurateurs taking advantage of the growing buzz behind Gowanus is no surprise to us. The Superfund designation grabbed headlines and brought light down on the former industrial hub, but when Whole Foods Market opened a 56,000-square-foot supermarket with a 20,000 square-foot rooftop in December 2013, heads truly began to turn. While some local residents looked forward to Whole Foods moving in, not surprisingly, others we're not fully behind it. Many assumed that the opening of the high-end grocery symbolized the beginning of the area's irrevocable change.

Whole Foods and a growing hotel market seem to have laid the ground work for the currently expanding Gowanus restaurant and retail scene. New, hip retail establishments — boutique spas, yoga studios, a rock climbing gym and craft bars — have been popping to meet the growing and, what many see as inevitable, demand of residential development. Not surprisingly, 3rd Avenue between 15th and Wyckoff Streets is now considered to be one of NYC's up-and-coming retail strips. And while great local music venues like Bell House, located in a former 1920s warehouse, are definitely contributing to the neighborhood's scene and attraction, it's the breaking out restaurant scene that really has people coming back for more.

One of the first notable eateries to go Gowanus is Dinosaur BAR-B-QUE. The well renowned restaurant chain opened its first Brooklyn location on Union Street, just west of 4th Avenue, in the summer of 2013, and has since been drawing in droves of locals and BBQ lovers from surrounding neighborhoods.



GOWANUS BELL HOUSE



DINOSAUR BBQ



BISON BOURBON



FLETCHER'S



HALYARDS



FOUR & TWENTY BLACKBIRDS

The moderately priced, summer pop-up Pig Beach, which is just west of the Union Street Bridge, opened in Gowanus just two summers ago. The doors lead diners to an outdoor patio, which allow you to sit canal-side while enjoying a plate of house-smoked ribs (among other traditional BBQ dishes) and a pint beer. Leading the "Brooklyn BBQ" pack is Fletcher's, located at 433 3rd Avenue. Since late 2012, Fletcher's has been serving up their take on the classics.

There's also a trend of high-end restaurants popping up and supporting the growing confidence investors have in the neighborhood. Restaurants that you might expect to find see on Smith Street in Cobble Hill rather than off of 3rd Avenue are opening up and being well received by the local and surrounding residents. Located on the corner of Sackett and Nevins Streets is Freek's Mill, a farm-to-table restaurant, just blocks from the canal. The original Freek's Mill was located at Union and Nevins Streets back in 1784, when the canal was known as Gowanus Creek.

Located at 285 3rd Avenue, you can find a retail bakery, restaurant and bar, all in one location. Runner & Stone, opened in December 2012, has been impressing residents and visitors since day one. Morning, noon and night, the multi-menu restaurant serves everything from home-made breads and pastries to high-end seasonally infused cuisine.

Then, there's Bison & Bourbon, an upscale kosher restaurant on 7th Street, west of 3rd Avenue. On a street you probably wouldn't expect to be eating al-fresco in a Mediterranean style courtyard and enjoying specialty cocktails you can now find this Gowanus hotspot. Seeing the crowds you wouldn't think they just opened six months ago, but with a menu filled with such creative cuisine, it definitely adds up.



PIG BEACH

The Canal, The Cleanup & The Community

BROOKLYN HEIGHTS

Work in Progress:

Anticipated Completion: Fall 2016

Owner: HKF Inc.
55 Hook Road, Bayonne, NJ 07002
917-207-7388

For Additional Info:
973-901-2185

General Contractor:

23RD St. Cor
917-207-7388

To anonymously
at this website:

Para re
sitio d
No t

GOWANUS

PARK SLOPE

GREENWOOD

DANGER
HARD HAT
AREA

NO
SMOKING

The Canal, The Cleanup & The Community



In the wake of the Superfund designation, and now with the cleanup underway, the issues concerning the neighborhood's instability to support and draw in significant residential development have the potential to be put to bed. With the proper support, the aggressive cleanup of the canal, a multi-targeted plan and timeline has given reason for investors to hedge bets on the industrial underdog. If the expected rezoning of the area passes, 363 and 365 Bond Street will be just two of the many large residential buildings rising along the canal banks and former Brownfield sites.

Although there's talk of a swift remediation of the toxicity that runs rampant via the canal, there are multiple steps that need to take place before the neighborhood is truly viewed in a new light. The dredging of the canal is the first step. There is layer upon layer of pollution below the water's surface that need to be removed. There will also need to be two combined sewer overflow (CSO) retention tanks (mandated by the EPA) that will significantly improve the canal's water quality. Additionally, according to the plans put out by Bridging Gowanus, the neighborhood requires new infrastructure to prevent regular flooding, improvements to the area's parks, and improved access to the canal. Once fully cleaned, the canal will become a neighborhood amenity that will have the potential to offer public transportation via the NYC Ferry System.



City Layed Groundwork / The Rezoning / Residential Development

BROOKLYN HEIGHTS

CARROLL GARDENS

RED HOOK

GOWANUS

PARK SLOPE

GREENWOOD

CITY LAYED GROUNDWORK/THE REZONING/RESIDENTIAL DEVELOPMENT •
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City Layed Groundwork

The Ennis Playground Proposal that was drafted by the NYC Park Department is just one of the evidentiary examples that city planners are preparing, and putting in motion, the groundwork for not only a residential boom but a shift in demographics. The \$2.5-million makeover to the broken down recreation space is expected to be completed by spring 2019, and, judging by the renderings and proposal text, the “new” Ennis Playground, appears to be designed to cater to and attract a new wave of residents of the neighborhood.

Next up is the Department of Transportation’s (DOT) freshly painted bike lane that’s being laid down on a stretch of Bond Street through Gowanus. The DOT upgrade is not only being designed for the current increase in two-wheeled travel to and from the neighborhood, but also in preparation for the surge of new bike-riding residents migrating to the neighborhood. Continuing on the topic of two-wheeled-transportation, Citi-Bike is largely expanding the number of biking stations in Gowanus. The large expansion is bringing the neighborhood total of stations to 10.

As young residents begin moving into hip “new” neighborhoods, you get more than just new buildings. Soon enough, additional seats are needed in the public schools, as the number of local children begins to grow alongside the neighborhood. In preparation for the growing population, and to address an already overcrowded system, P.S. 32, The Samuel Mills Sproule School, is getting a major, 56,856-square-foot expansion. The plans for the new building will bring 436, much-needed new seats for the rising number of children moving into the neighborhood.



The Rezoning / Residential Development

The DCP has now officially begun its “collaborative planning process” aimed at creating housing and preserving jobs in fast-changing area. Gowanus will undergo a DCP “PLACES” study, which is the same planning process that was used to residentially rezone parts of Long Island City and East Harlem. It appears that the many speculators who stated that City Hall intends to push for a rezoning of the area to promote more residential were right on track.

As for developers, some have been waiting in the wings, for what’s been called the inevitable rezoning, in order to file plans and break ground and we’ve already seen this anticipation affecting the numbers. In a mid-2016, an empty lot at 431 Carroll was scooped up by Alloy Development for \$338 per buildable square foot. Not only is that above average for the borough, but it’s a rare number for land in a manufacturing zone.

As for Gowanus’ numbers in general, they’ve been on the rise across the board.

Property metrics sailed upward for Gowanus in 2015. Gowanus’ 2015 total investment property sales hit \$181 million — a 47% year-over-year jump from 2014’s \$123 million.

Price per buildable square foot rose from \$223 to \$262 — a 17% year-over-year uptick — while multifamily pricing gained 15% going from an average of \$489 per square foot in 2014 to \$561 per square foot in 2015.

Gowanus’ median rental price is also rising. Last year ended with a median price of just under \$3,000 — a 13% increase from 2014’s median price of \$2,650.

Additionally, the median rental price of 2015 should significantly spike by the end of 2016 when taking into account the opening of 365 Bond, Lightstone Development’s 430-unit, luxury rental project that’s quickly risen on the banks of the canal. The building began welcoming residents just a few months ago. Next door, at 363 Bond, Lightstone and new partner Atlantic Realty are working on phase two of a 700-unit complex that has an expected completion date of early 2017.

Developers definitely have Gowanus on their minds, and we expect big things to come to the area if/when the neighborhood is rezoned to support the type of construction many are pushing for. In fact, although the project is a few years out, Hudson Companies has plans for “Gowanus Green”, a 774-unit, 8 building complex right next door to Lightstone’s 363-365 Bond. Hudson’s project is slated to be 70% affordable though. Big name developers like Adam America and Slate have already partnered on the three big projects on 4th Avenue, two of which are on the Gowanus side of the thoroughway.

In addition to Adam America and Slate’s affinity for 4th Avenue, Boaz Gilad’s Brookland Capital acquired a large assemblage on the Gowanus side of 4th Avenue, where its plans to build an 11-story, 38-unit residential building with ground-floor retail.

What’s Next?





With the pressures of gentrification affecting a large portion of the borough of Brooklyn, Gowanus is no exception. Although some still dwell on the fact that a large section of Gowanus rests on top of a toxic waste site that is primarily industrially zoned, Gowanus is becoming more residentially focused. This, by all means, will lead to the optimal neighborhood revitalization. Specifically, the impact of community outreach groups, as well as speculated affordable housing, should cause less residential displacement than other gentrifying areas in Brooklyn. For urban planners, policy makers, and developers alike, Gowanus is perceived as a residential blank slate that grants the opportunity of seeing an evolution different from that which we've seen in other former industrial hubs. The changes that are on the way for Gowanus will have more community influence than that which we've seen in the past.

The canal cleanup, which we've noted is already underway, will surely bring new life to the neighborhood, providing a safer environment for residents. Furthermore, the opportunity to develop housing, both affordable and market rate has the potential to establish a community that is not only attainable but socio-economically diverse as well.

In response to this upward swing, the retail market will continue to flourish, the office market will gain more traction, the growing hospitality sector should will stay intact and the residential market, well that's going to be the driving force behind it all. We've spoken to capital investment in the area in the previous pages but it has become clear that what We've referred to was only the first wave. Given the opportunity to invest in Brooklyn's residential market, new developments will surely begin to pop-up around the neighborhood. Investors will likely be bullish, and the now industrial landscape will surely transform alongside a cleaner waterway.

The future of Gowanus is not exactly set-in-stone, but for the moment, the fast-changing neighborhood, along with the City's support for advanced changes in its infrastructure, indicates that the in-transition area will soon have a more clear direction. And in turn, we will see more developers and more residents deciding to **"Go Gowanus."**



<p>\$19,500,000</p> <p>601 Ocean Parkway Brooklyn, NY 44 Apts</p>		<p>\$6,600,000</p> <p>218-220 Park Place Brooklyn, NY 20 Apts</p>	
	<p>\$6,550,000</p> <p>2105 Foster Avenue Brooklyn, NY 21 Apts</p>		<p>\$4,000,000</p> <p>370 East 23rd Street Brooklyn, NY 20 Apts</p>
<p>\$3,575,000</p> <p>1424 Avenue J Brooklyn, NY 6 Apts & 4 Stores</p>		<p>\$2,925,000</p> <p>341 Lincoln Road Brooklyn, NY 16 Apts</p>	

MICHAEL WEISER
President
O: 212 837-4668 E: mweiser@gficap.com

JUSTIN FITZSIMMONS
Research Analyst
O: 212 837-4558 E: jfitzsimmons@gficap.com

TRACI-LEA DIXON
Associate Marketing Director
O: 212 837-4665 E: tdixon@gficap.com

WINNIE LIU
Marketing Coordinator
O: 212 837-4640 E: wliu@gficap.com

JOYCE YING FU
Graphic Designer
O: 212 837-4537 E: jfu@gficap.com

FOR MORE INFORMATION ABOUT OUR AVAILABLE LISTINGS PLEASE CONTACT:

P: (212) 837-4665
E: INFO@GFIREALTY.COM

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\$11,400,000

509 Saratoga Avenue
& 17 Van Siclen Avenue
Brooklyn, NY
59 Apts

**FOR MORE INFORMATION ABOUT OUR
AVAILABLE LISTINGS PLEASE CONTACT:**

P: (212) 837-4665
E: INFO@GFIREALTY.COM



gfirealty.com

140 Broadway, 41st Floor | New York, NY 10005
P: (212) 837-4665 | E: info@gfirealty.com

