

Brooklyn 2022 Year-End Commercial Real Estate Trends

by Ariel Property Advisors
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Investment Sales
Capital Services
Research

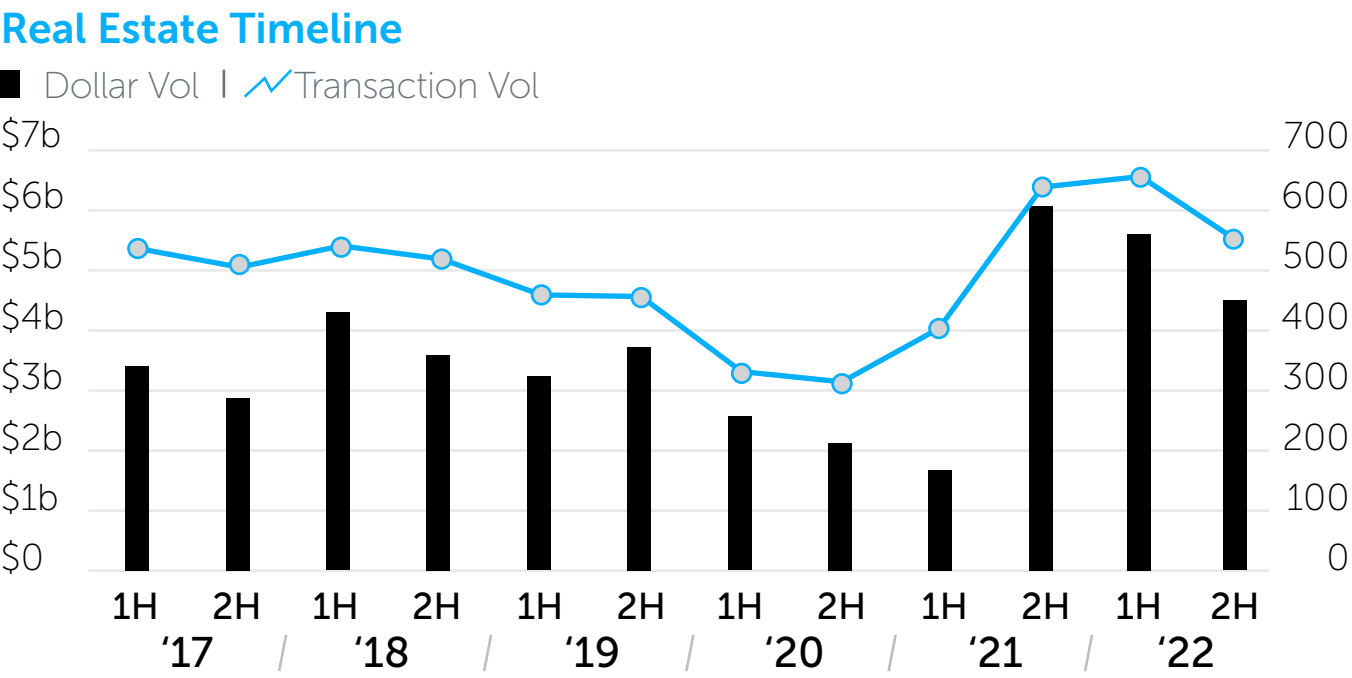
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2022 Year-End Overview

Despite several rate hikes and many regulatory and economic concerns, Brooklyn’s investment sales market made tremendous strides in 2022. Building off 2021, which saw rents and vacancy return to pre-pandemic levels, many investors reemerged from the sidelines and helped propel Brooklyn to its best year to date. In total, Brooklyn saw 1,226 transactions totaling just over \$10 billion, which represents a 20% and 28% increase year over year respectively. This marks the first time ever that the Brooklyn market has cracked the \$10 billion mark in gross dollar volume, surpassing the previous record of \$9.19 billion from 2015. Several asset classes saw record highs in pricing, and the Multifamily & Industrial/Warehouse classes specifically had their best year ever in terms of dollar volume. Institutional money helped to play a major role, as 2022 finished the year with 16 transactions of \$100+ million, nearly doubling the 9 from 2021.



Volume
2022 vs 2021

28%

↑

\$10.02b

Dollar

20%

↑

1,226

Transaction

16%

↑

1,516

Property

Dollar Volume Comparison

Product Type	2022	'22 vs '21	2021	'22 vs '20	2020
Multifamily	\$5,324,836,402	10%	\$4,854,033,357	168%	\$1,987,277,383
MF-MU 10+ resi units	\$3,780,760,462	4%	\$3,631,389,294	173%	\$1,385,711,720
MF-MU 6-9 resi units	\$676,456,610	22%	\$556,202,718	164%	\$256,101,574
MF-MU Small	\$867,619,330	30%	\$666,441,345	151%	\$345,464,089
Commercial*	\$490,926,832	6%	\$464,569,723	-27%	\$670,256,645
Ind / WH / Sto**	\$1,302,385,818	76%	\$738,947,300	172%	\$478,396,449
Development	\$1,627,588,537	30%	\$1,248,315,377	52%	\$1,070,467,681
Office	\$633,529,782	181%	\$225,600,000	212%	\$203,289,050
Special Purpose	\$640,270,330	108%	\$308,150,283	254%	\$180,614,009
GRAND TOTAL	\$10,019,537,701	28%	\$7,839,616,040	118%	\$4,590,301,217

*Commercial includes retail and hotel properties
**Ind / Wh / Sto: Industrial / Warehouse / Self Storage

2022 Year-End Outlook

The outlook on inflation and the resulting direction of interest rates will be a major driver of sales activity and pricing throughout 2023. We saw buyer sentiment turn sharply negative in late 3Q22 when it became apparent that higher interest rates were not bringing down inflation fast enough, leading most to believe both elevated inflation and elevated interest rates would be present longer than many had hoped.

Market fundamentals have now recovered, but buyers and sellers are more cautiously pricing properties to account for elevated rates and the potential of a recession in the near term. This will likely drive prices down for income-producing properties in 2023. Sales volume, however, may actually increase as owners with loans coming due this year look to sell properties versus refinance, which would require them to accept higher interest rates and potentially pay down principal amounts.

We hope the legislature follows through on recent housing policy announcements by the NY State Governor Hochul and Mayor Adams. Despite improved market fundamentals, development site sales are hobbled by the higher interest rate environment. Clarity on a policy replacing the Affordable New York Program, efforts to streamline DOB operations, and fast-tracked rezoning initiatives are essential to improve development site transactions that ultimately lead to construction.

Transaction Volume Comparison

Product Type	2022	'22 vs '21	2021	'22 vs '20	2020
Multifamily	807	29%	624	141%	335
MF-MU 10+ resi units	161	45%	111	109%	77
MF-MU 6-9 resi units	237	18%	201	128%	104
MF-MU Small	409	31%	312	166%	154
Commercial*	102	3%	99	20%	85
Ind / WH / Sto**	99	-4%	103	65%	60
Development	166	10%	151	37%	121
Office	22	16%	19	144%	9
Special Purpose	30	15%	26	76%	17
GRAND TOTAL	1,226	20%	1,022	96%	627

*Commercial includes retail and hotel properties
**Ind / Wh / Sto: Industrial / Warehouse / Self Storage

Multifamily Highlights

- The Brooklyn multifamily market had its strongest year to date in 2022, finishing with 807 transactions, the most ever recorded in the borough. This represents a 29% increase from 2021's 624 transactions.
- Dollar volume finished the year at \$5.3 billion, also an all time high, and a 10% increase from 2021. This is a particularly impressive feat when you consider the Starrett City Portfolio partial interest sale that occurred in August of 2021 accounted for \$1.3 billion all on its own. Excluding that trade, the dollar volume actually increased by 33% in 2022.
- The average price per square foot reached \$459, a 23% increase compared to 2021 and the highest average ever record in the borough.
- While institutional money has helped propel the asset class to new heights, it was primarily smaller local investors who drove the activity in 2022 as 93% of all the multifamily sales traded for below \$10 million.
- There has also been a noticeable shift in recent years towards smaller, primarily free-market buildings that are not subject to rent stabilization. MF-MU Small accounted for over 50% of the multifamily transactions in 2022. This is a trend we expect to continue into the foreseeable future as investors more aggressively pursue value add opportunities.

Volume
2022 vs 2021

10%

↑

\$5.32b

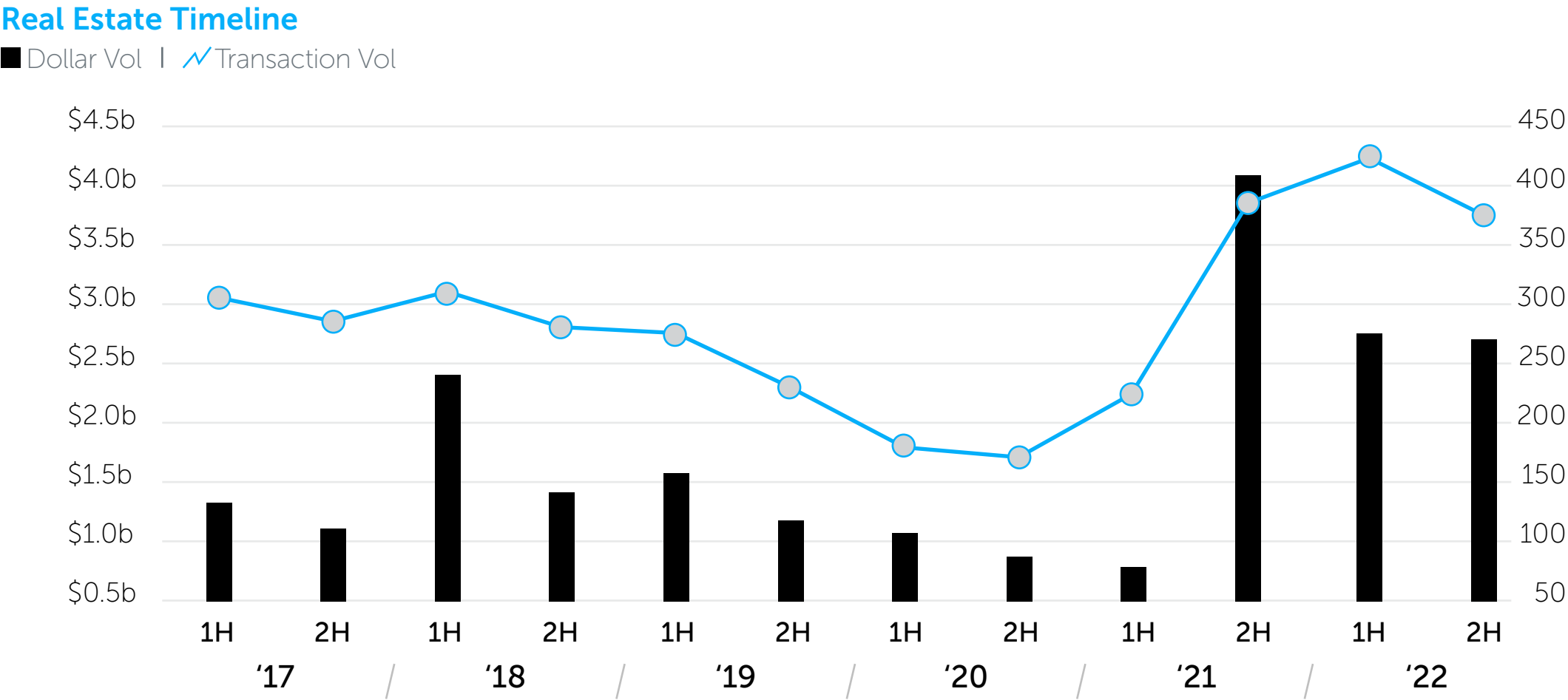
Dollar

29%

↑

807

Transaction



Property Value Metrics - Multifamily*

Year	2016	2017	2018	2019	2020	2021	2022
\$/SF	\$376	\$388	\$389	\$420	\$397	\$357	\$459
\$/Unit	\$326,813	\$316,692	\$335,109	\$372,284	\$335,146	\$309,817	\$396,734
Cap Rate	4.58%	4.43%	4.65%	4.70%	5.27%	5.51%	5.24%
GRM	15.96	15.39	15.44	13.56	12.60	11.46	12.64

*reflects multifamily transactions of 10+ residential units

2H'22 Featured Transaction



Sheepshead Bay
Lefrak South BK
MF Portfolio

Sale Amount:
\$248,715,000
\$/SF:
\$202
Buyer:
The Lefrak Organization
Seller:
A&E Real Estate Holdings

Sale Date: **11/7/2022**

Commercial Highlights

- Transaction activity in this asset class continued to impress in 2022 with the third highest transaction volume on record. Dollar volume was down 10% from the annual average since 2012 however, that is partly attributed to the lack of large institutional deals in 2022.
- One major issue is that institutional money is still lacking in this space. The largest commercial transaction of the year was the Chetrit Groups’ \$34 million sale of 1100 Kings Highway & 2067 Coney Island Avenue in December, which was sold to an owner-user for \$1,153 per square foot. When including other asset classes, this was only the 48th largest sale of the year.
- Smaller mom & pop retail in low-density neighborhoods are driving the activity in this market. This year, only 7 of the 96 commercial sales occurred in “prime” neighborhoods like Williamsburg, Greenpoint and Downtown Brooklyn. All other sales occurred in Central and South Brooklyn, with Sheepshead Bay and Borough Park leading the way.
- 72% of commercial transactions were below \$5 million and 56% were below \$3 million. Due to this smaller scale, the average price per square foot was a record \$666, narrowly surpassing the previous high of \$665 from 2016.

Volume
2022 vs 2021

6%

↑

\$491M

Dollar

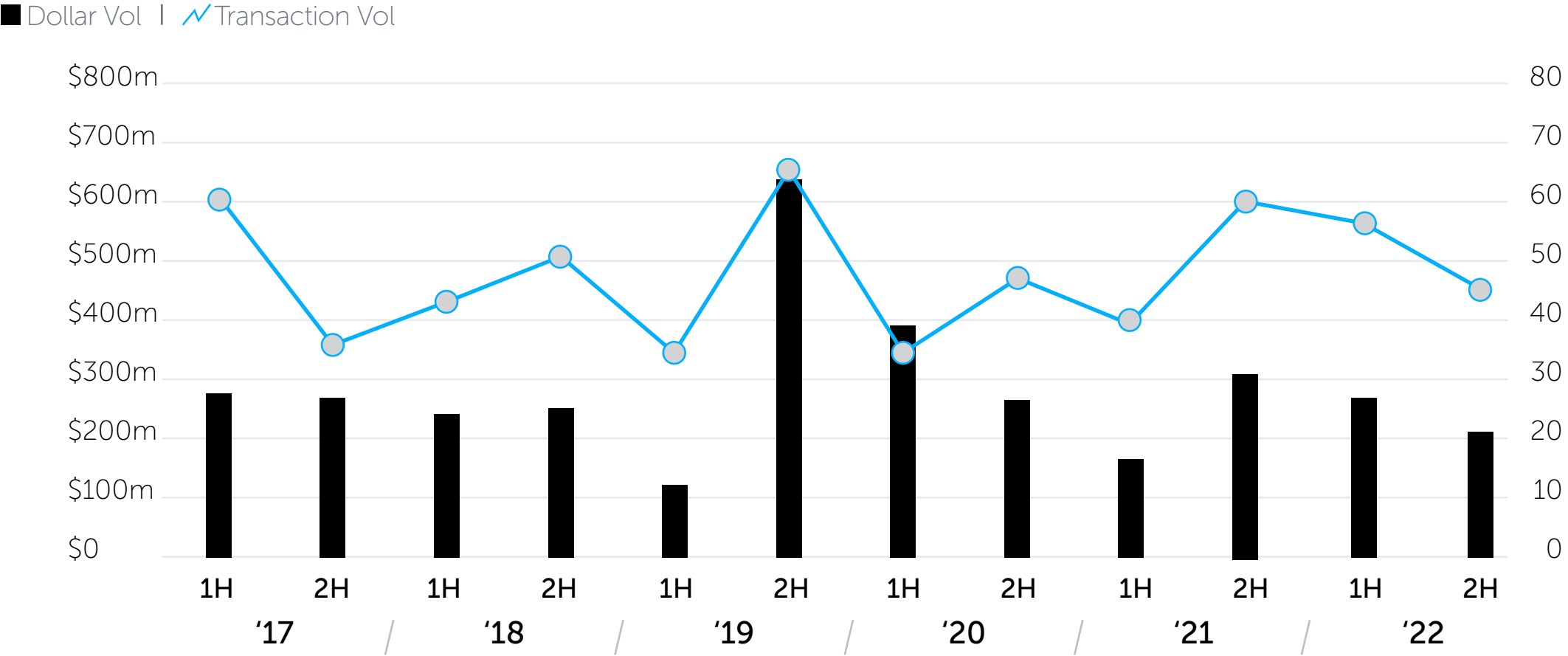
3%

↑

102

Transaction

Real Estate Timeline



Property Value Metrics - Commercial*

Year	2016	2017	2018	2019	2020	2021	2022
\$/SF	\$665	\$616	\$608	\$635	\$577	\$559	\$666

*reflects transactions of commercial buildings

2H'22 Featured Transaction



Sheepshead Bay
1100 Kings Highway &
2067 Coney Island Avenue

Sale Amount:
\$34,000,000
\$/SF:
\$1,153
Buyer:
2828 Coney Island Avenue LLC
Seller:
Ab & Sons Group LLC

Sale Date: **12/15/2022**

Ind / WH / Sto Highlights

- The Industrial/Warehouse market continues to thrive in the post-pandemic era as more retailers continue to shift into the online space. Despite transaction volume in 2022 staying relatively flat compared to 2021, the \$1.3 billion in dollar volume is a 76% increase year over year and the highest amount ever recorded in Brooklyn.
- This increase can be attributed to the \$332 million sale of 640 Columbia Street in Red Hook and the \$228.5 million sale of 554 & 578 Cozine Avenue in East New York, both in the first half of 2022. Both properties are fully leased to Amazon and are the two largest industrial/warehouse sales ever in Brooklyn.
- Red Hook in particular continues to be a leader in the industrial market due to its centralized location and proximity to all major roadways and waterfronts. In addition to the Columbia Street sale, Red Hook saw 6 transactions totaling \$70 million in 2022.
- The \$492 per gross square foot average is also a Brooklyn record, surpassing 2021 by 14%, which was the previous high.

Volume
2022 vs 2021

76%

↑

\$1.3b

Dollar

-4%

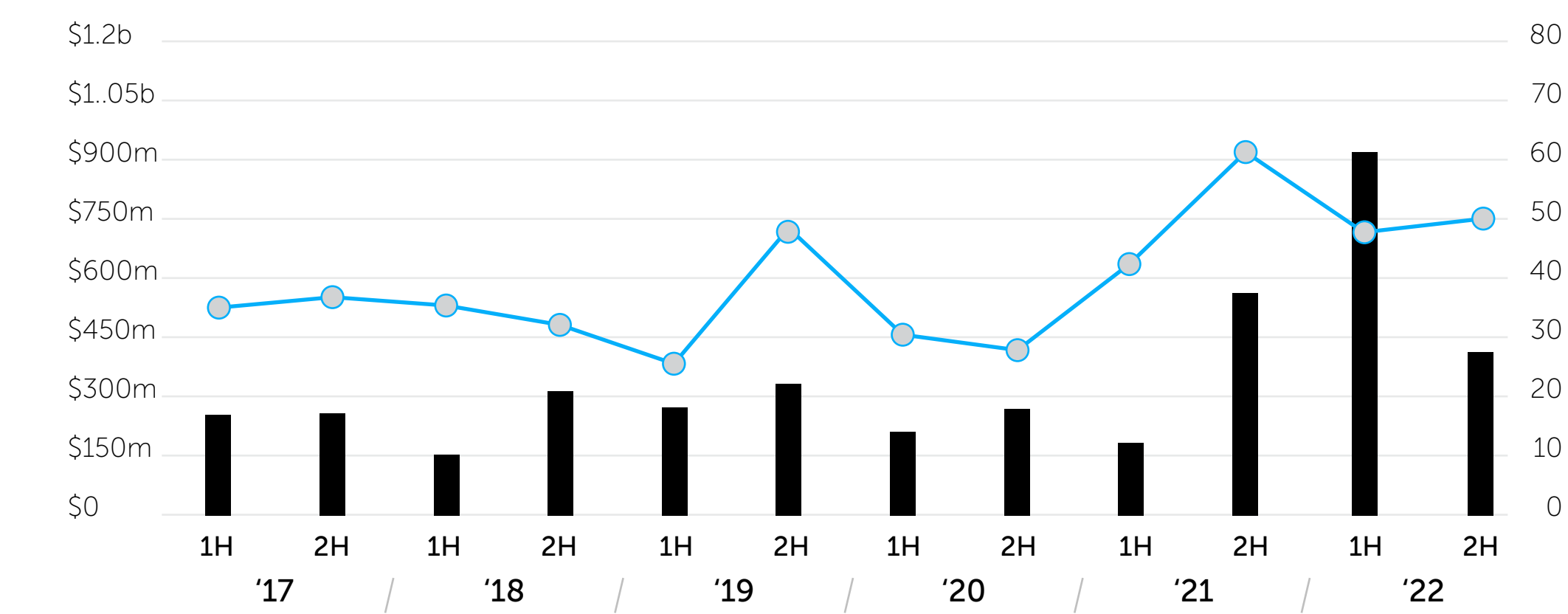
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99

Transaction

Real Estate Timeline

■ Dollar Vol | ▲ Transaction Vol



Property Value Metrics - Ind / WH / Sto*

Year	2016	2017	2018	2019	2020	2021	2022
\$/Gross SF	\$319	\$383	\$408	\$437	\$396	\$425	\$492
\$/Lot SF**	\$96	\$195	\$170	\$313	\$414	\$240	\$219

*Ind / Wh / Sto: Industrial / Warehouse / Self Storage
**\$/Lot SF applies only to properties where the gross building square footage is less than 50% of the lot square footage

2H'22 Featured Transaction



Vinegar Hill
160 John Street

Sale Amount:
\$43,550,000
\$/SF:
\$439
\$/Lot SF:
\$2,792
Buyer:
Queens Self Storage Owner Lp
Seller:
Knickpoint Ventures
Sale Date: **7/15/2022**

Development Highlights

- The June 15th expiration of the 421a tax abatement helped to spur activity early on within the Brooklyn development market in 2022 as developers rushed to get their shovels in the ground. There were 93 trades during the first half of 2022, but only 73 in the second half, a 22% decline. As a whole, the development market still finished the year with a 10% increase in transaction volume and a 30% increase in dollar volume compared to 2021.
- The average price per buildable square foot soared to \$278, a 10% increase compared to 2021 and the highest average ever in Brooklyn.
- Williamsburg continues to be the hot spot for development in Brooklyn. Its 33 transactions totaling \$325 million accounted for 19% of sales this year, however, we have seen a significant increase of activity in surrounding neighborhoods as well.
- Gowanus transaction volume saw a strong uptick with 8 total transactions, doubling its total from 2020 & 2021 combined. Madison Realty Capital’s purchase of 350-355 Hicks Street in Cobble Hill for \$142 million was the largest development site sale in Brooklyn since 2019. The next two highest sales were located in Flatbush and Brighton Beach.
- As developers spread throughout Brooklyn, they are also increasing their scale. 2022 saw 38 transactions of \$10 million or more, a 31% increase from 2021.

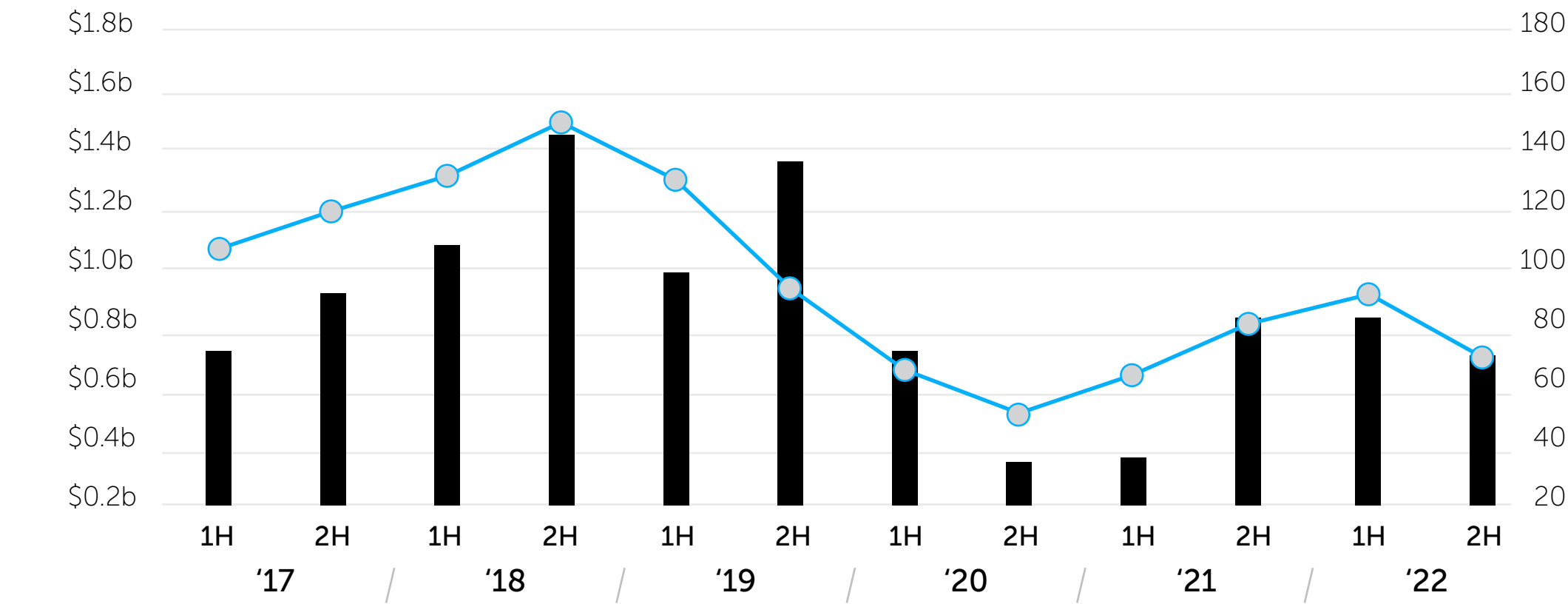
Volume
2022 vs 2021

30%
↑
Dollar
\$1.63b

10%
↑
Transaction
166

Real Estate Timeline

■ Dollar Vol | ▲ Transaction Vol



Property Value Metrics - Development*

Year	2016	2017	2018	2019	2020	2021	2022
\$/BSF	\$262	\$248	\$261	\$251	\$251	\$254	\$278

*reflects transactions of vacant land or equivalent development sites

2H'22 Featured Transaction



Cobble Hill
350 & 355 Hicks Street

Sale Amount:
\$142,174,588
\$/BSF:
\$794
Buyer:
Madison Realty Capital
Seller:
Fortis Property Group LLC

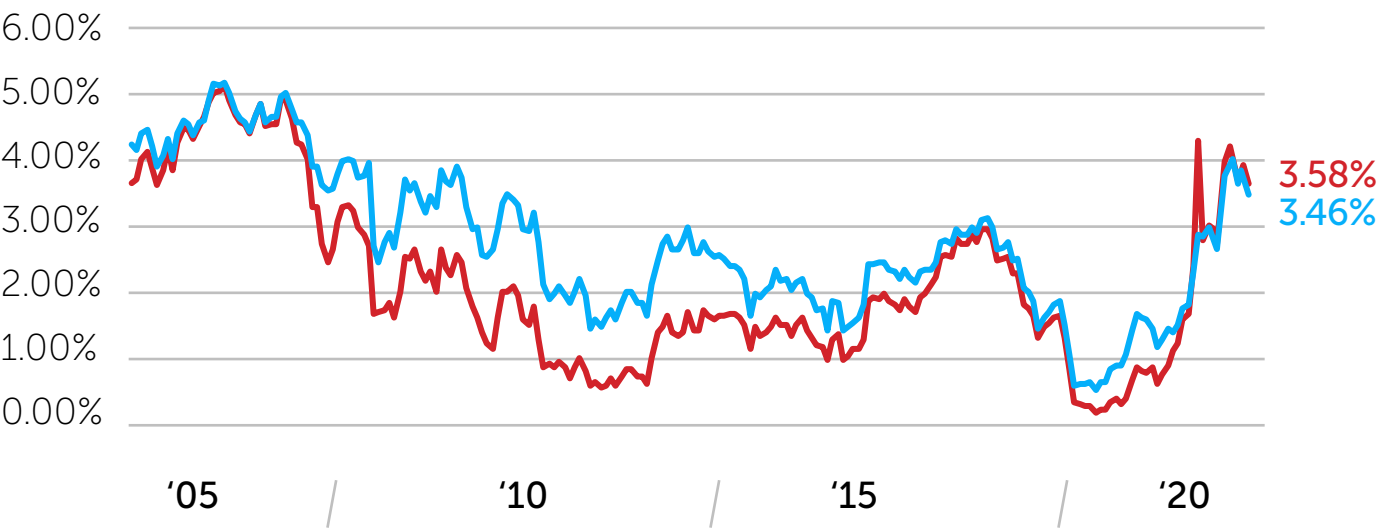
Sale Date: **10/20/2022**

Macro Economic Overview

A number of macro-economic indicators affect the bottom line of commercial real estate investments in New York City and, in turn, the pricing and demand for these assets during any given period. Ariel Property Advisors’ Research Division tracks national and local metrics to identify key market drivers influencing the real estate industry.

Financing:

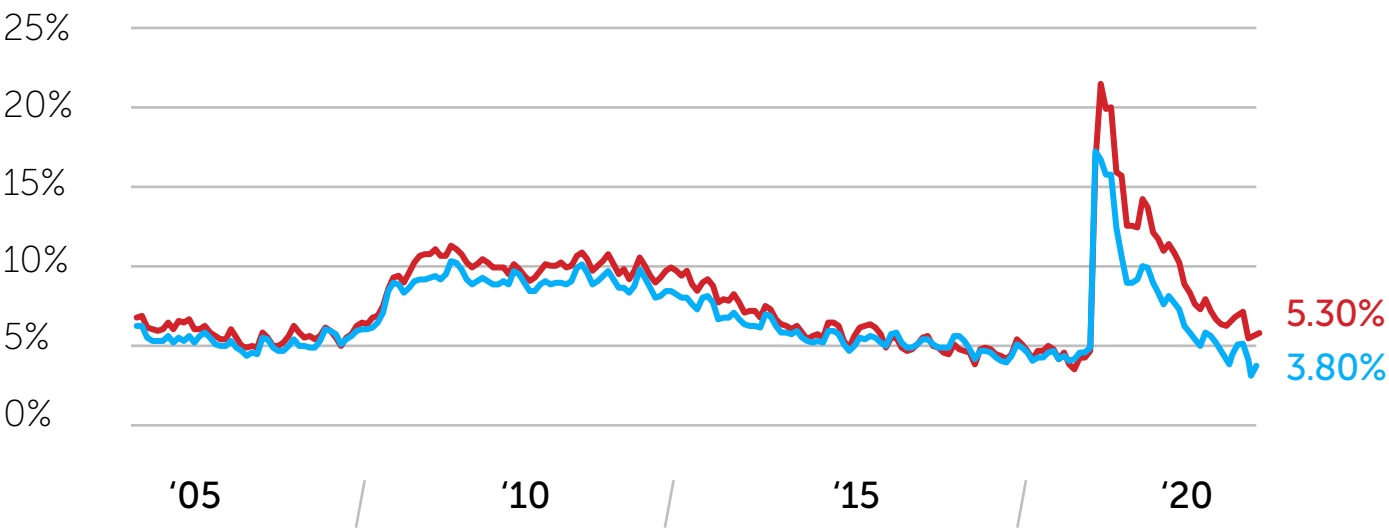
10-Year: 3.46% | 5-Year: 3.58% | As of January 24th, 2023
Treasury Yield Curve Rates 10-year | 5-year



Source: U.S. Department Of The Treasury

Unemployment Timeline:

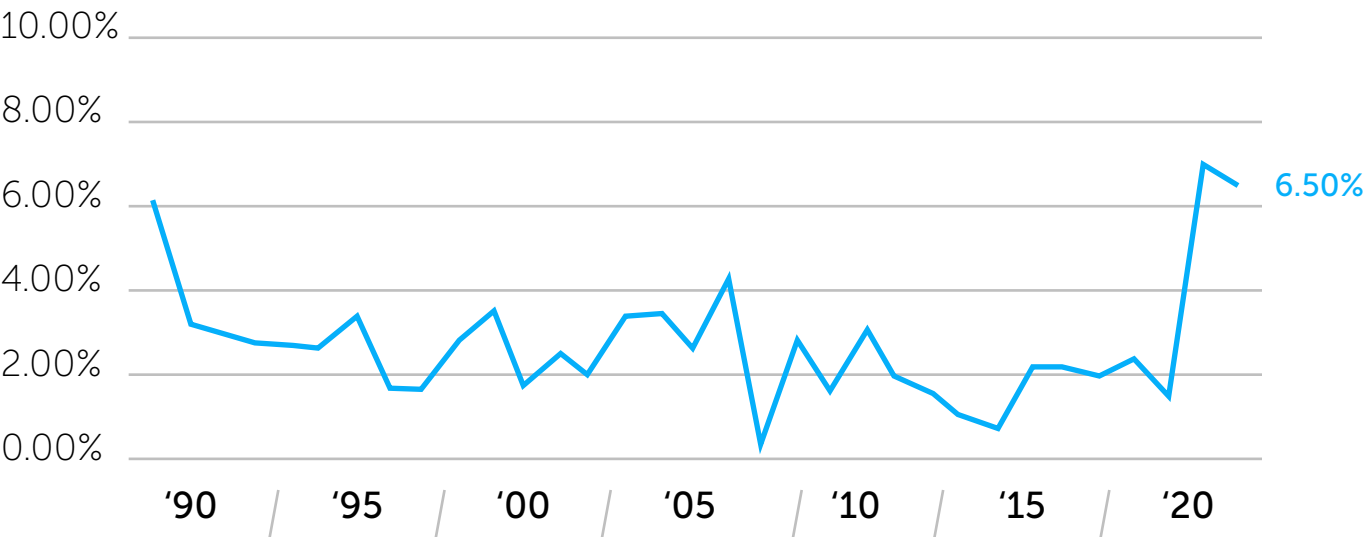
NYS: 3.80% | NYC: 5.30% | As of December 2022
Unemployment Rate History | NYS & NYC (Not Seasonally Adjusted)



Source: Department Of Labor

Consumer Price Index (CPI):

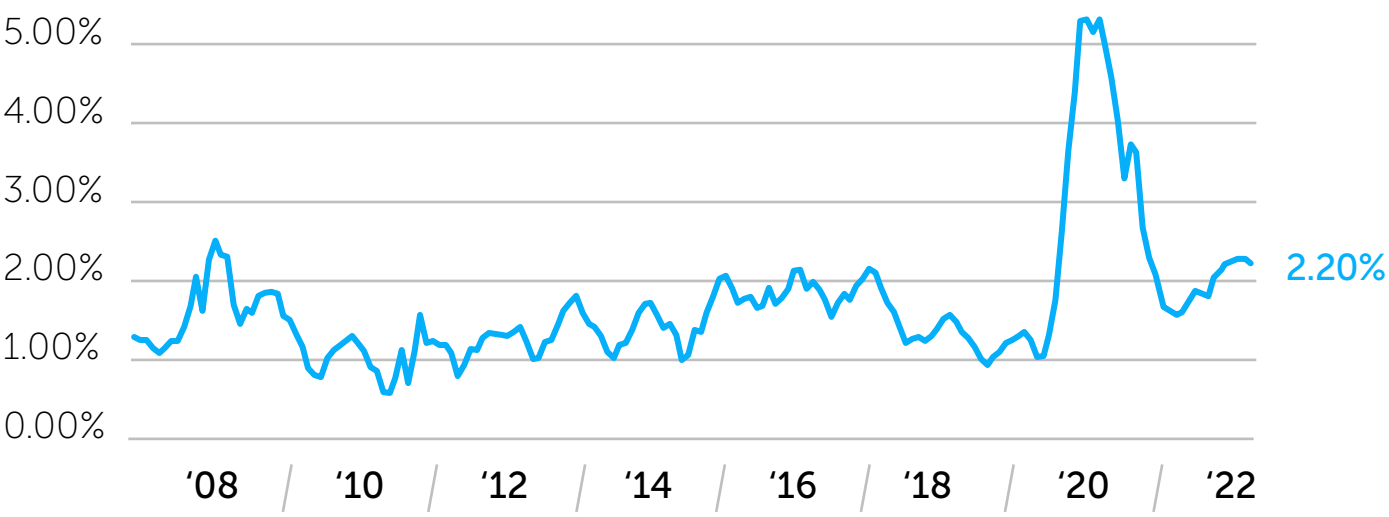
National CPI
Growth - December 2022 Y-O-Y



Source: U.S. Bureau Of Labor Statistics

Rental Market / Vacancy:

Manhattan Residential
Rental Vacancy January 2008- December 2022



Source: Corcoran

Thought Leadership Featured in Forbes

Ariel Property Advisors has been a regular contributor for Forbes. Here is the list of the five latest articles.



Sep 9, 2022

The Bronx Is Back: Institutional Money Is Chasing Yield

The Bronx saw record dollar volume and the second most transactions ever recorded with \$1.54 billion investment sales across 191 transactions, according to research produced by Ariel Property Advisors.



Oct 7, 2022

New York City Real Estate: Top Trends That Are Moving The Needle

New York City is once again demonstrating its resiliency. Office workers are returning, the workforce is growing, tourists are back, lunch hour lines are forming outside eateries, and trains and buses are filling up. The first half of the year the city saw \$22.1 billion in investment sales, slightly lower than the last six months of 2021 but significantly higher than all of 2020 and 1H 2021.



Oct 24, 2022

Brooklyn’s Investment Sales Reach \$5.56 Billion

Brooklyn’s investment sales totaled \$5.56 billion in 1H 2022, a slight dip of 8% from the record \$6.1 billion in 2H 2022, but up 213% year-over-year, according to Ariel Property Advisors Mid-Year Brooklyn Report.



Nov 9, 2022

New York City Multifamily Sales Totaled \$3.57 Billion In 3rd Quarter


Despite continuing economic headwinds, the New York City multifamily sector posted surprisingly impressive results during the third quarter, according to Ariel Property Advisors’ Q3 Multifamily Quarter in Review report.



Dec 13, 2022

NYC’s Perfect Storm: Rent Stabilized Opportunities in the Face of Mortgage Resets and Maturities

New York City owners of rent-stabilized apartment buildings are facing a perfect storm as a tidal wave of mortgage maturities and resets is fast approaching for properties purchased before the passage of the Housing Stability and Tenant Protection Act (HSTPA) of 2019.

Read More
On [Forbes Website](#) 
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Ariel’s unique company structure, with separate divisions for Investment Sales, Capital Services and Research, ensures outstanding service for our clients. Whether it’s implementing a strategic marketing process, compiling a comprehensive Asset Evaluation, securing financing or providing timely market information, every assignment is served by a team of specialized professionals.

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