CUSHMAN & WAKEFIELD

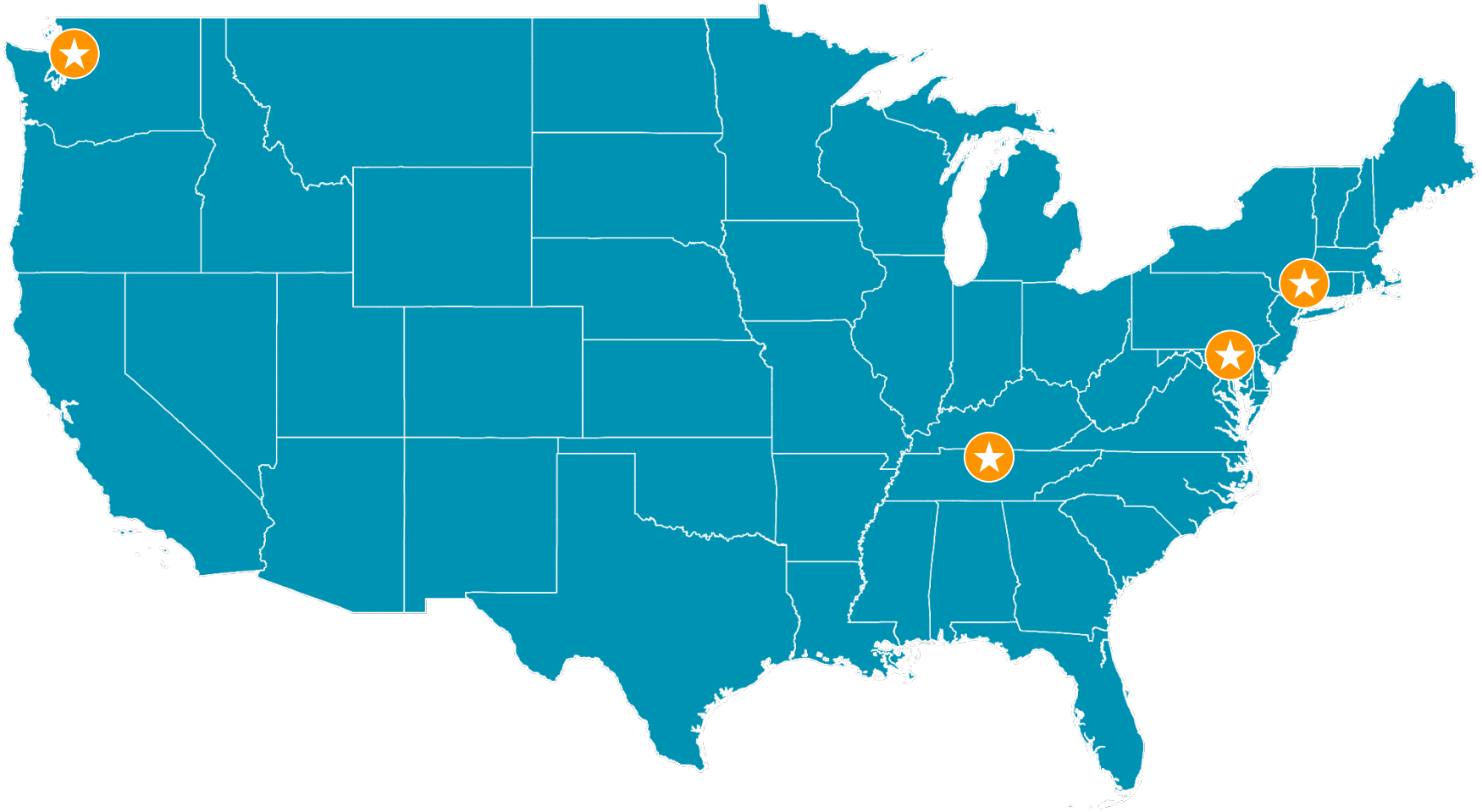
# LONG ISLAND CITY

## Market Impact Study

January 2019

# The HQ2 Decision

Amazon chooses Long Island City for trifurcated HQ2; Crystal City, VA & Nashville, TN other locations



## HQ2 Impact

- Amazon has chosen three locations for its HQ2: Long Island City in NYC, Crystal City in the DC Metro area and Nashville, TN
- Amazon has committed to create at least 25,000 jobs, and possibly as many as 40,000 jobs in each city, plus 5,000 in Nashville
- The jobs are expected to have an average salary of $150,000 per annum

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# The Long Island City Commitment

Long Island City offers immediate occupancy and future development options

## Initial Announcement

- LOI for 1 msf at One Court Square
- Pursuing construction of 4-msf office complex at Anable Basin development with a potential for 8 msf
- Amazon is targeting 3,600 jobs by 2020 and expects to hit its target of 25,000 jobs by 2028
- $3.6B total investment committed to LIC
- Plans to fill up to 40,000 jobs by 2034, with about 1,300 direct union construction jobs created each year

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Sources: Empire State Development, CoStar

## New York City

## Infrastructure

One of the primary items stressed in Amazon's RFP was **transportation infrastructure.**

Despite needs for improvement and renovation, NYC transit options are **some of the most extensive** in the U.S.

A continued **focus on transit-oriented development** is expected throughout the near-term.

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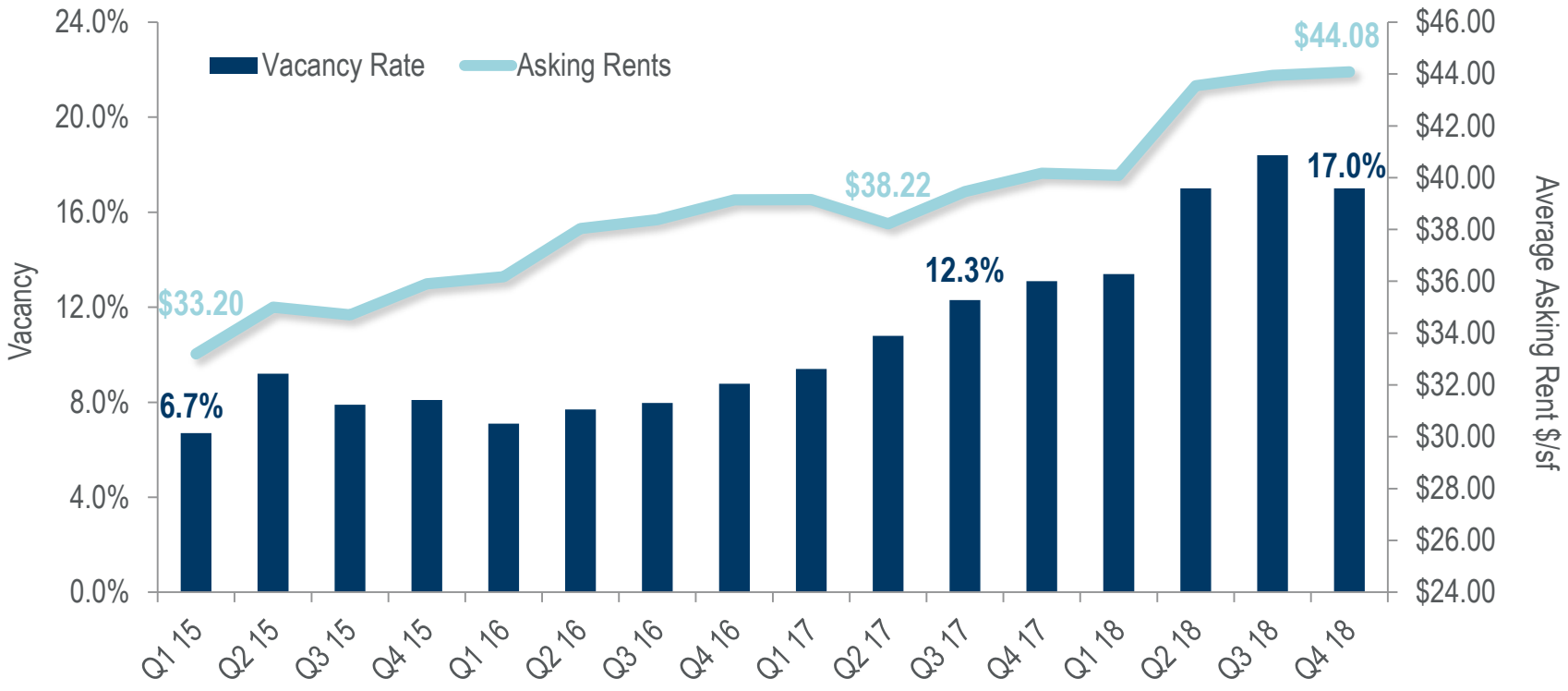
*Posted travel times are estimates for 9:00 a.m. on a weekday

# Long Island City Office Market

## Vacancy Rate vs. Overall Asking Rent




### Q4 2018 Review

- Vacancy decreased 140 bps quarter-over-quarter but remains up 390 bps year-over-year
- Asking rents reached $44.08 psf at year-end—the highest level on record
- This was driven by the addition of vacant Class A space and construction completions

## Incentives Drive Real Estate Expenses Lower

Companies that pay their employees an average annual salary of $75,000 may be reimbursed up to $4,500 per employee on an annual basis through state incentive programs such as REAP, Excelsior and Commercial Expansion Program (CEP) that are available as a result of opening a location in Long Island City.

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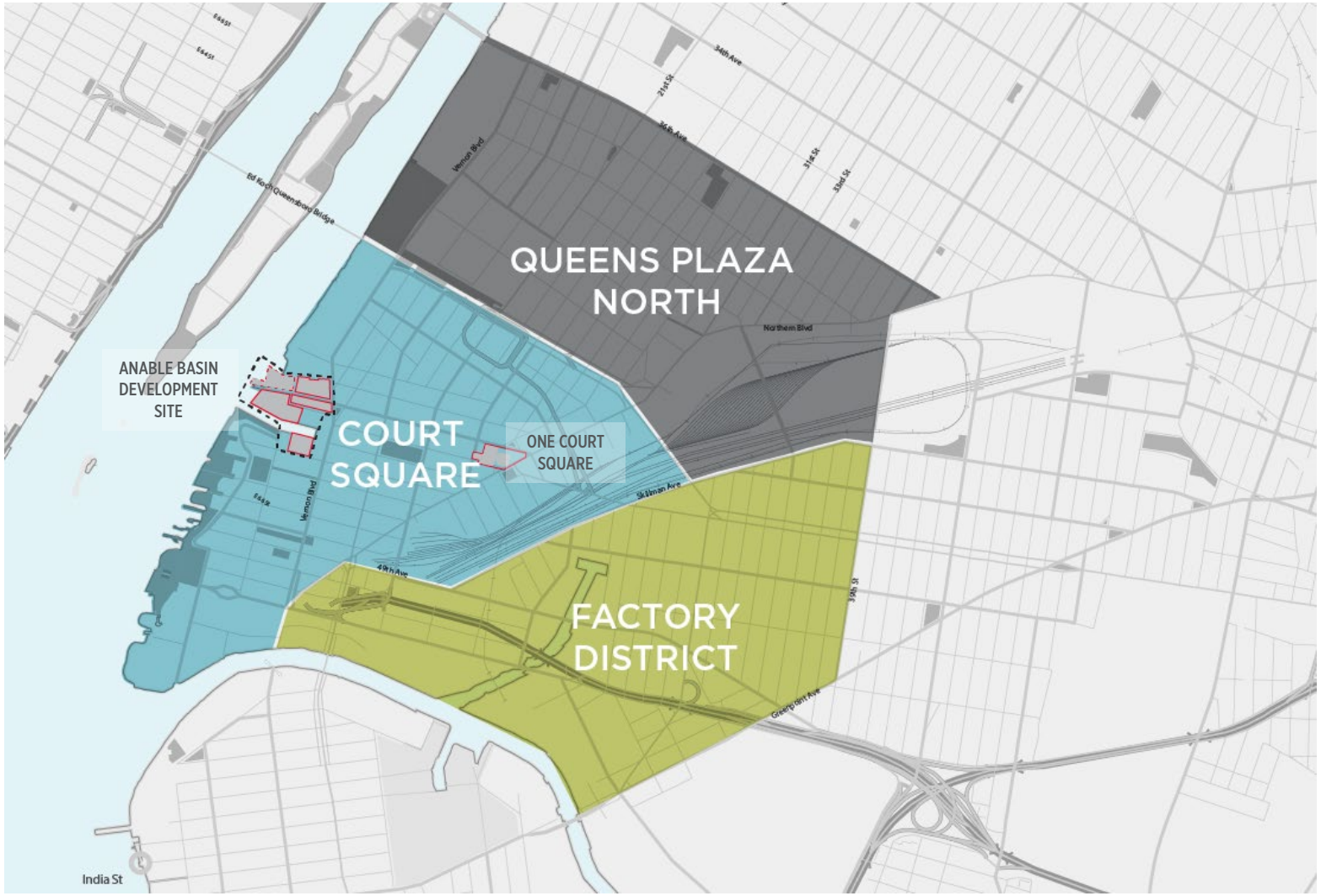
# Long Island City Office Market

| LONG ISLAND CITY OVERALL | | |
|---|---|---|
| **Total Size:** | **12.1 msf** | |
| | **Q4 18** | **Q4 17** |
| Vacancy | 17.0% | 13.1% |
| Asking Rents | $44.08 | $40.17 |

| COURT SQUARE | | |
|---|---|---|
| **Total Size:** | **3.7 msf** | |
| | **Q4 18** | **Q4 17** |
| Vacancy | 13.2% | 6.3% |
| Asking Rents | $54.59 | $41.82 |

| QUEENS PLAZA NORTH | | |
|---|---|---|
| **Total Size:** | **3.0 msf** | |
| | **Q4 18** | **Q4 17** |
| Vacancy | 17.6% | 22.1% |
| Asking Rents | $35.36 | $37.07 |

| FACTORY DISTRICT | | |
|---|---|---|
| **Total Size:** | **5.4 msf** | |
| | **Q4 18** | **Q4 17** |
| Vacancy | 19.3% | 12.2% |
| Asking Rents | $43.32 | $43.29 |

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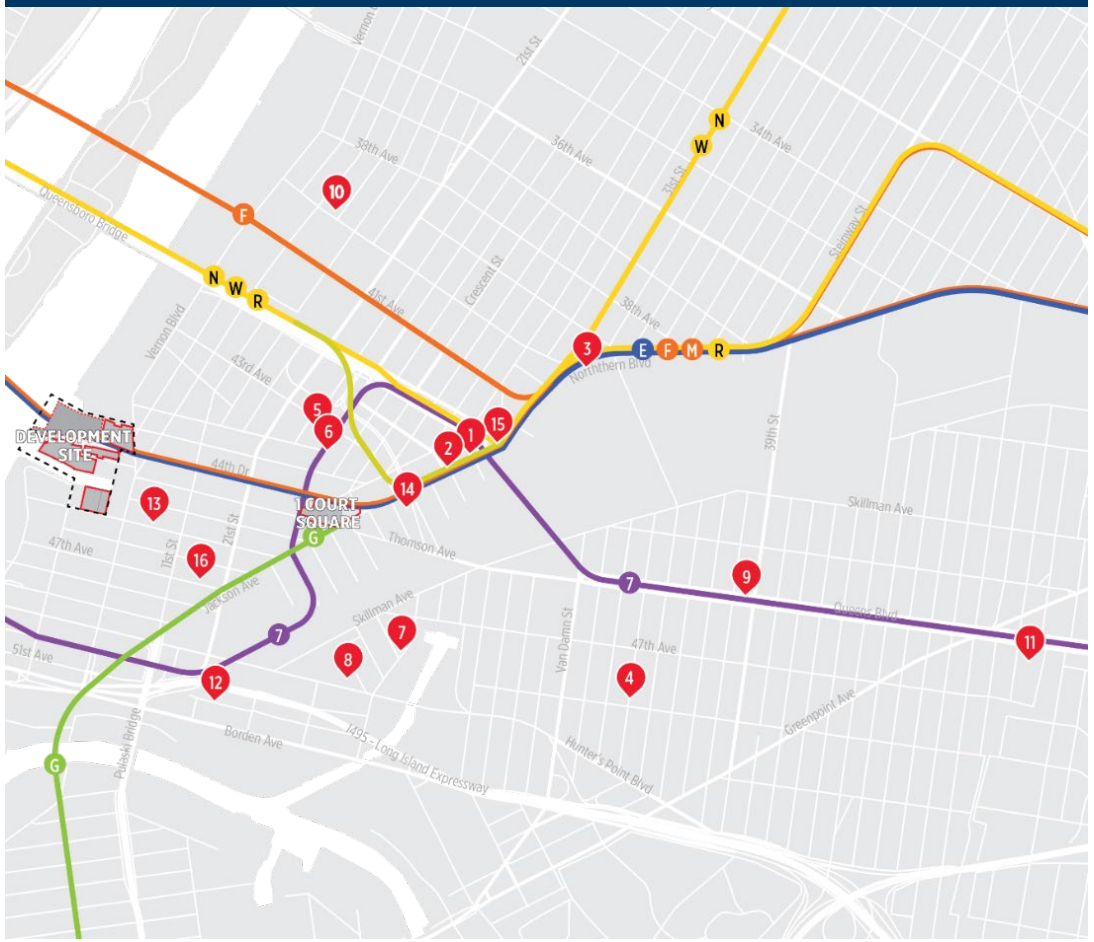
# Long Island City Office Development Pipeline

| Map ID | Address/Name | Building Size (SF) | Owner / Developer | Estimated Delivery/ Year Built |
|---|---|---|---|---|
| 1 | 28-10 Queens Plaza South/ Three Jackson | 550,000 | Tishman Speyer | Q1 2019 |
| 2 | 28-01 Jackson Avenue/ One Jackson | 550,000 | Tishman Speyer | Q1 2019 |
| 3 | 30-20 Northern Boulevard | 430,000 | Alma Realty Corp | TBD |
| 4 | 47-30 35th Street/HUB LIC* | 342,061 | Metropolitan Realty Association | 2018/1914 |
| 5 | 4301 22nd Street/ REISS Studios* | 222,000 | GFP Real Estate LLC | 2018/1925 |
| 6 | 4310 23rd Street/43TEN | 203,184 | Normandy Real Estate Partners | TBD |
| 7 | 4711 Austell Place/Austell Place* | 171,076 | Normandy Real Estate Partners | 2018/1916 |
| 8 | 25-11 49th Avenue/Gantry Point | 150,000 | Normandy Real Estate Partners | Q4 2019 |
| 9 | 3801 Queens Boulevard/ The Sunnyside | 118,512 | Platinum Realty Associates | Q1 2019 |
| 10 | 38-78 11th Street | 115,000 | 10 11 49th Avenue Realty Corp | TBD |
| 11 | 4514 51st Street | 82,154 | Cayre Equities | TBD |
| 12 | 21-01 51st Avenue/ The Cardinal Building* | 62,701 | The Kaufman Organization | Q4 2019 |
| 13 | 1027-10-29 46th Avenue/ Building 10-27 | 60,000 | GFP Real Estate LLC | 2018 |
| 14 | 32-12 Jackson Avenue/ Jackson Square | 55,000 | Vorea Group | TBD |
| 15 | 29-27 Queens Plaza North / LIC Clock Tower* | 51,870 | The Durst Organization | TBD |
| 16 | 11-20 46th Road* | 34,725 | Caerus Group | Q1 2019 |

*Renovation/conversion

**Nearly 3.2 msf in the office development pipeline, with 2.7 msf currently under construction**

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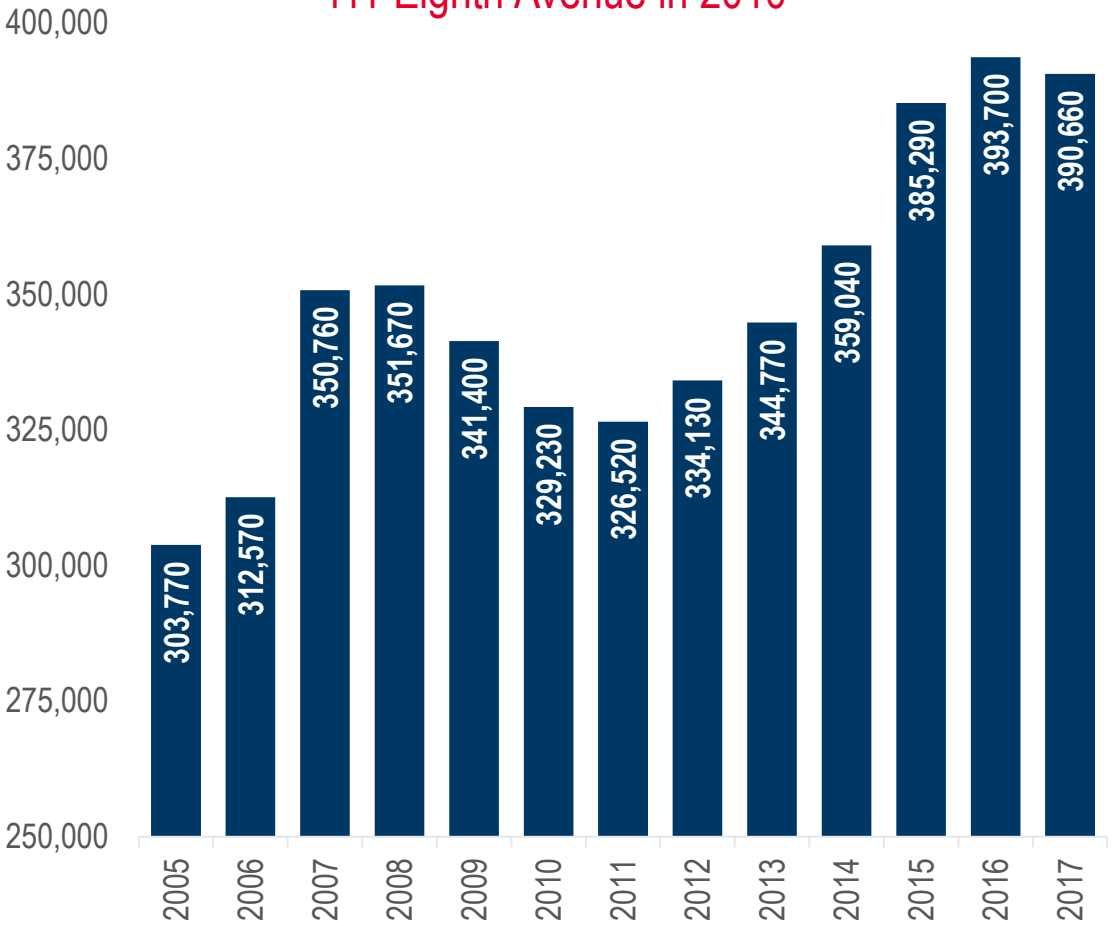
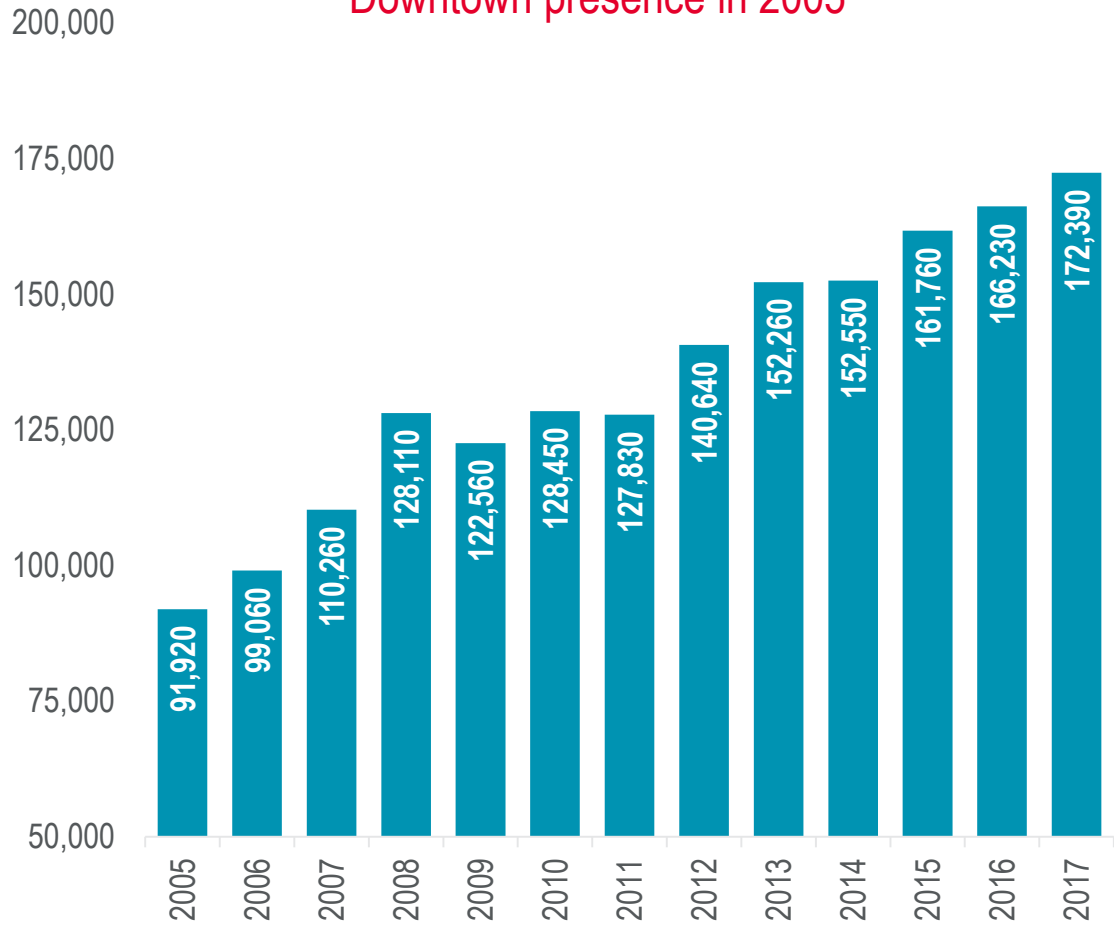
# NYC and Seattle Tech Employment Growth

64,140 tech jobs were created in NYC After Google purchased 111 Eighth Avenue in 2010




80,470 tech jobs were created in Seattle after Amazon significantly expanded its Downtown presence in 2005




Source: BLS, Cushman & Wakefield Research

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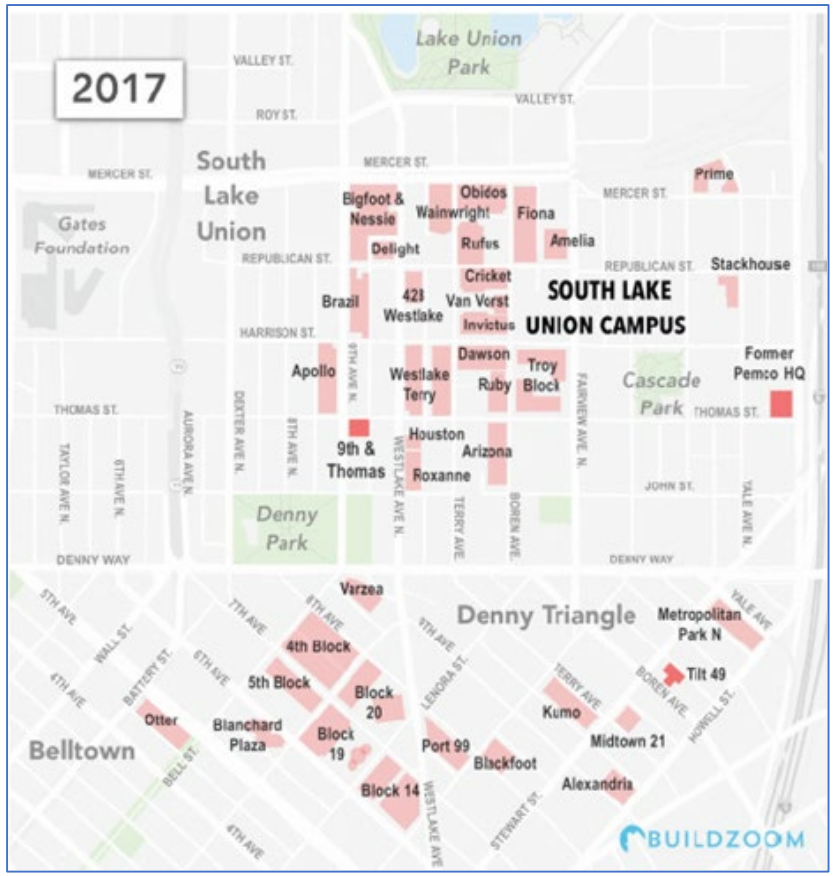
# The Impact on Seattle

Amazon occupied 190,000 sf in 1998, but now totals 13.6 msf including future commitments




## Seattle Market

- Over $1.9 billion in building permits have been filed for Amazon-occupied office space in 45 structures
- At least 33 Fortune 500 companies now have some presence in Amazon's home city of Seattle, up from 15 in 2006
- Now employs 45,000 in Seattle, which is nearly 10% of the office-using employment

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Sources: Buildzoom, CoStar

# Fortune 500 Companies in Seattle

There are currently 33 Fortune 500 companies with major corporate locations in Seattle

ADT, CenturyLink, Oracle, BlackRock, Honeywell, verizon, ebay, Gilead, Adobe, Comcast, DaVita, Wells Fargo, Alphabet, Expedia, unfi, Nucor, AECOM, US Foods

Before 2007, **only 15** of the 33 companies were in the Seattle market

JPMorganChase, Campbell's, amazon, Microsoft, xerox, Weyerhaeuser, NORDSTROM, Expeditors, PACCAR, EQUINIX, BOEING, Alaska Airlines, Costco Wholesale, WYNDHAM WORLDWIDE

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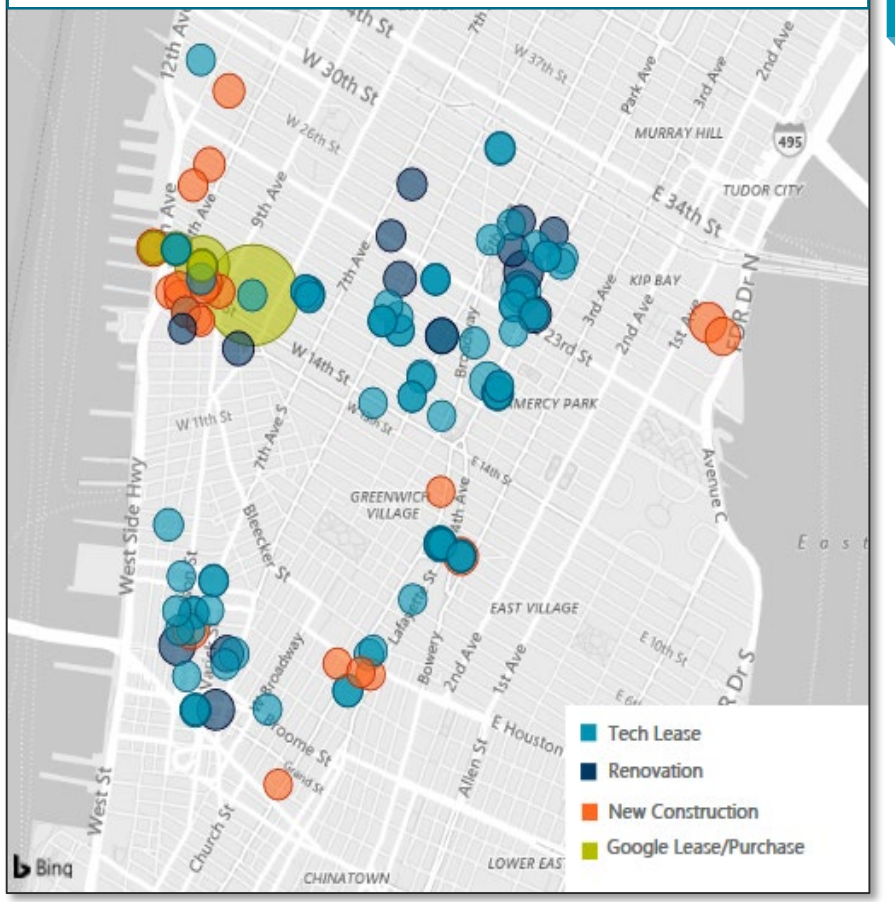
# The Google Effect: Impact on Midtown South

## Pre-Purchase of 111 Eighth Avenue

## Post-Purchase of 111 Eighth Avenue




## Key Takeaways

Since Google purchased 111 Eighth Avenue in 2010:

- **97 large* tech tenants** committed to **11.4 msf** of space
- **37 properties** were built or redeveloped totaling **4.2 msf**
- Investment dollar volume averaged **$11.6B after** the sale, compared to **$4.6B** from 2002-2009

Source: Cushman & Wakefield Research
*25,000 sf +

# The Google Effect

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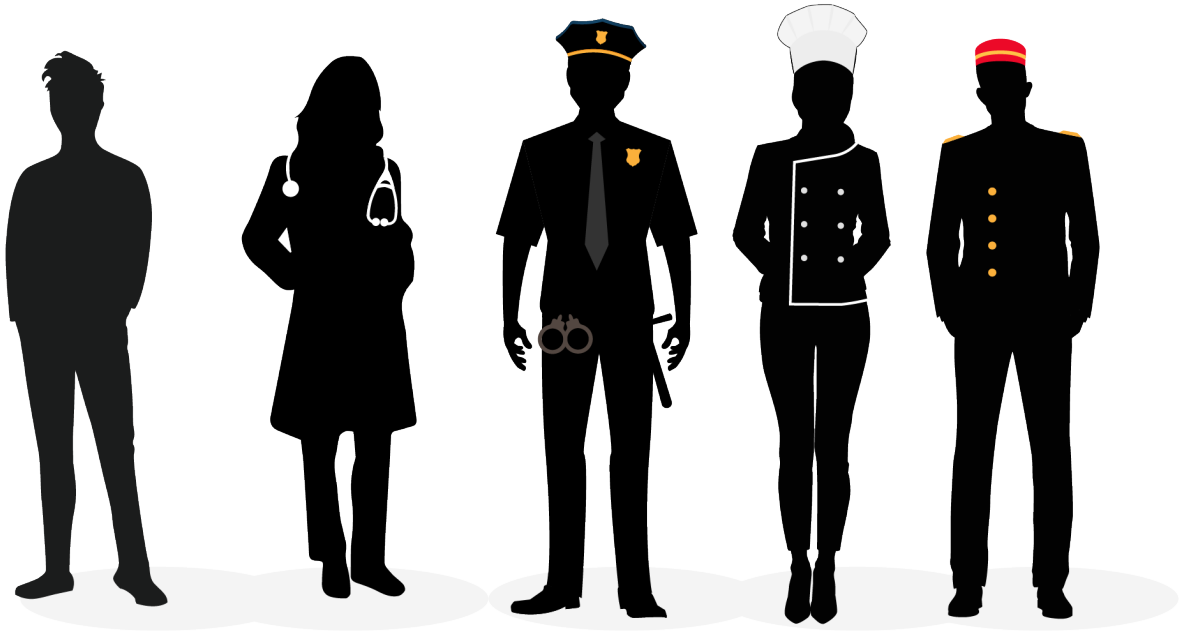
# The Multiplier Effect

- One high-tech worker is thought to generate **5 additional new jobs** in the local economy over the following ten years
- **One-third** of those tend to be **office-using**
- In contrast, a financial services job typically generates **3.4 additional new jobs**
- High-tech companies employ and consume **services in the local economy** but get revenue from all over the world
- High-tech workers earn more than the average person and **generate additional demand for all kinds of goods and services**
- Agglomeration effects lead to **clustering**

## THE 5X MULTIPLIER EFFECT



Each high-wage tech job that enters the market is expected to generate **five new jobs**

Source: EMSI, Cushman & Wakefield Research

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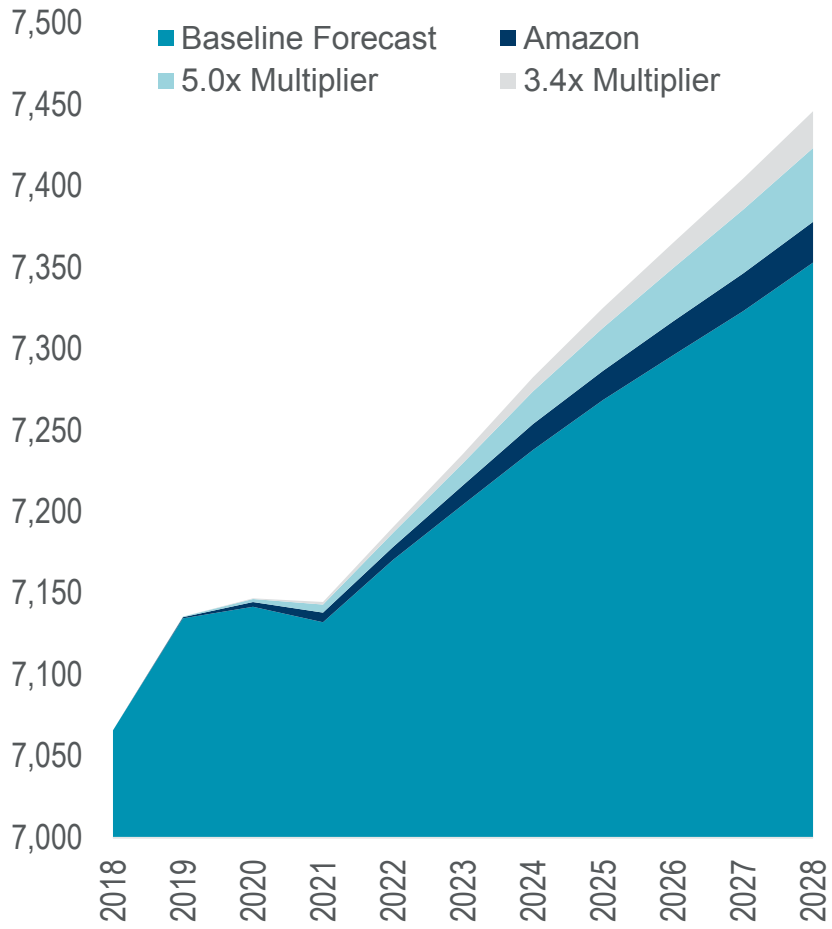
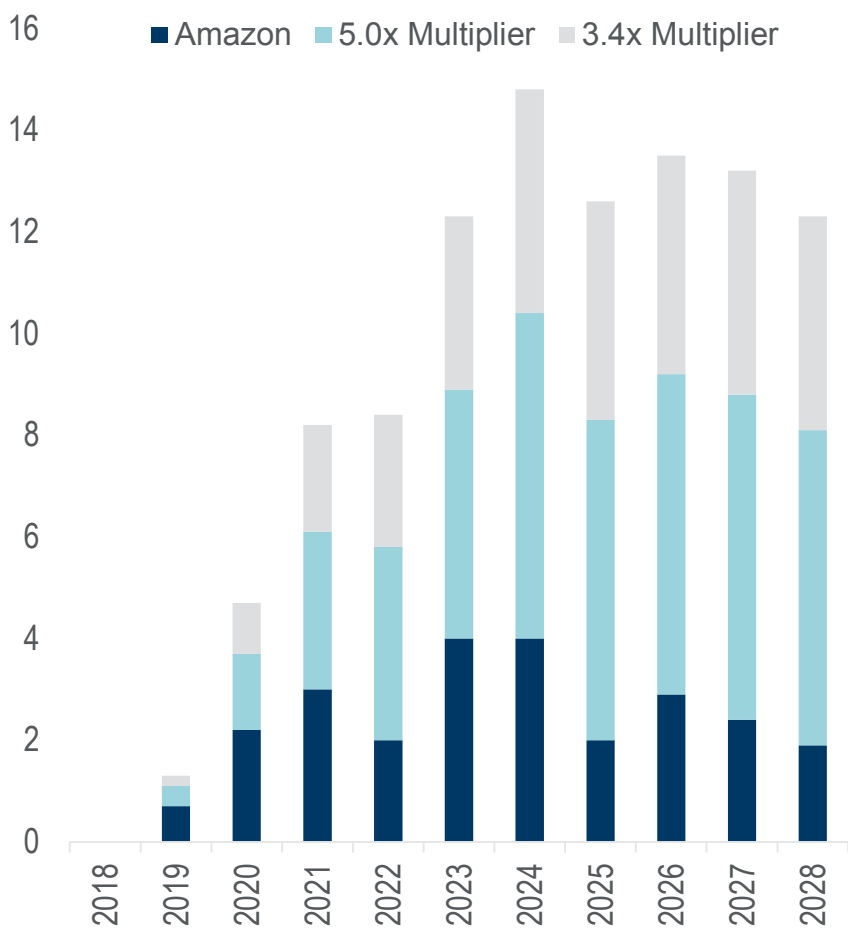
# Amazon Impact on NYC Total Employment Outlook

Nonfarm payroll employment (000s)

## Overall Employment Impact




## Annual Amazon Impact




## Key Takeaways

- Amazon adds 25,000 new jobs over the next 10 years—50% Tech, 50% Non-Tech
- Due to multiplier effect (5.0x Tech, 3.4x Non-Tech), 76,100 new jobs generated
- Office-using industries account for 24,800 new jobs due to the multiplier
- Jobs CAGR is:

| Forecast | Total | Office |
|---|---|---|
| Baseline | 0.40% | 0.33% |
| Amazon | 0.43% | 0.45% |
| 3.4x Mult. | 0.47% | 0.50% |
| 5.0x Mult. | 0.54% | 0.57% |

Source: Moody's Analytics, Cushman & Wakefield Research

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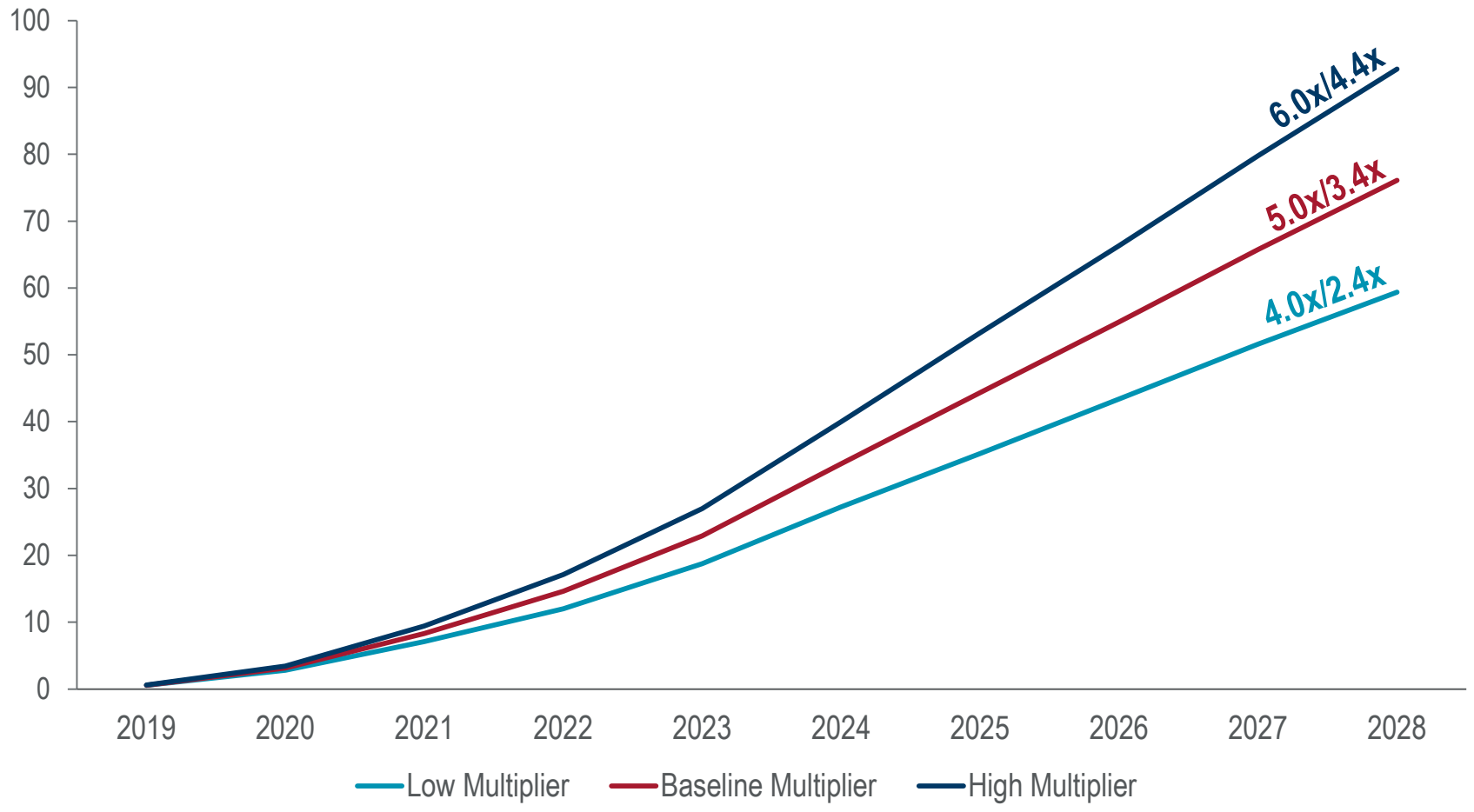
# Cumulative Nonfarm Employment Job Gains

Multiplier Impact, 000s




## Key Takeaways

- In addition to a baseline multiplier effect, which could create 76,100 new jobs, a low and high impact scenario was examined
- A range of 59,400-92,700 new jobs above baseline forecast under low/high scenario due to multiplier effect only

Source: Moody's Analytics, Cushman & Wakefield Research

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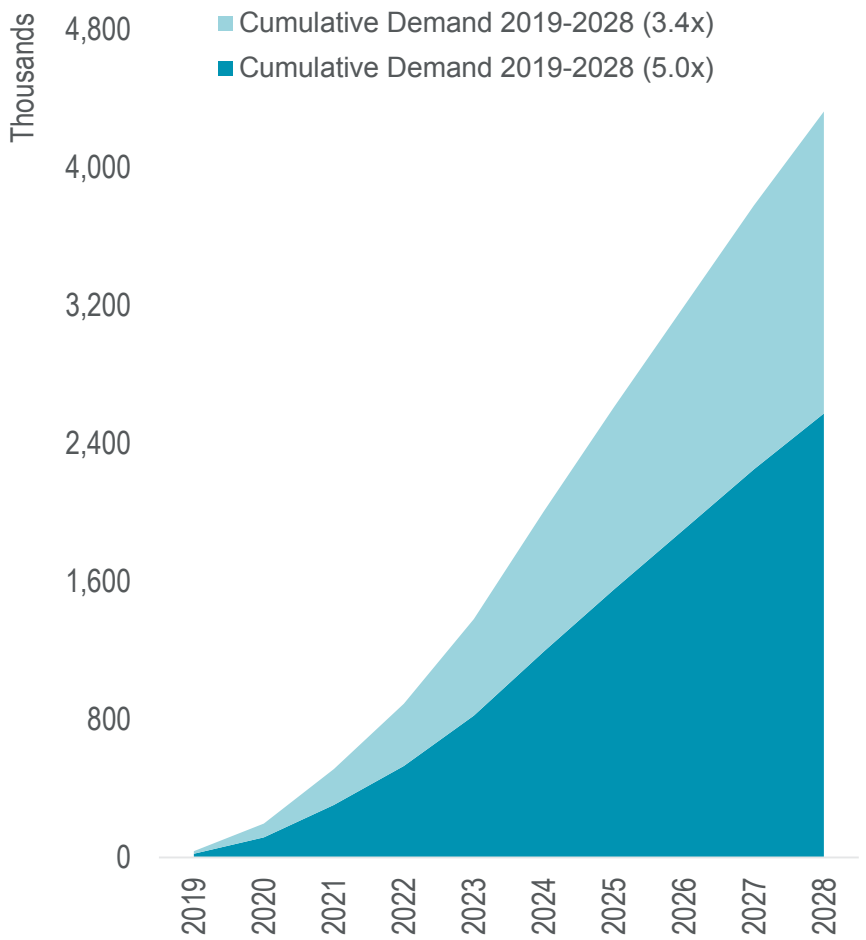
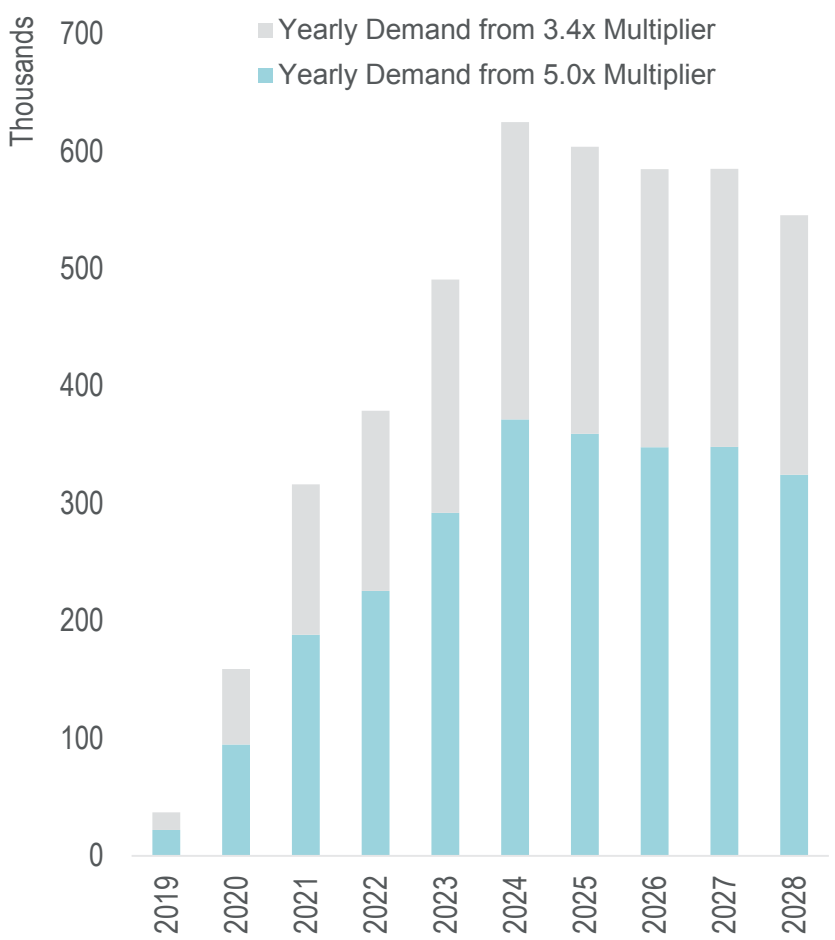
# Amazon Impact on NYC Office Property Market

## New Office Demand, SF




### Key Takeaways

- 10-year total new demand from multiplier effect only = 4.3 MSF
- Amazon's highest intended job growth is in 2023-2024 at 4,000 jobs annually.
- 48% of accretive office demand is attributed to the effect of the multiplier, however, it also impacts nonfarm job growth
- This has implications for housing demand and affordability, retail/ spending, and other metrics that are important for non-office CRE

Source: Moody's Analytics, Cushman & Wakefield Research

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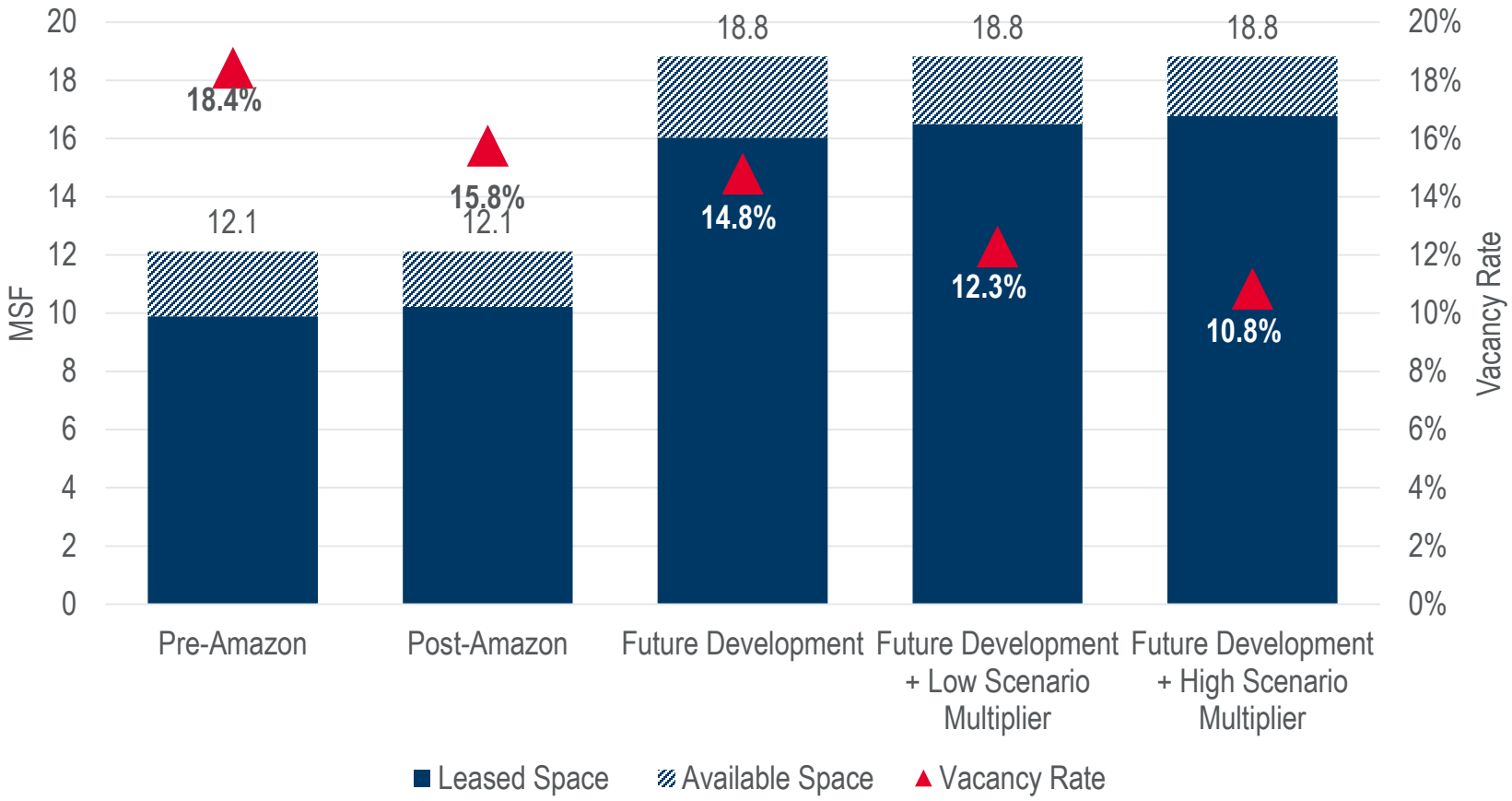
# Long Island City Office Vacancy

## Key Takeaways

- Long Island City's vacancy was 18.4% in Q3 2018
- The announcement to lease 1.0 msf at One Court Square drops the current vacancy to 15.8% (only 293,000 sf was on the market)
- Remaining space at One Court Square will be occupied as Citi vacates in 2020
- Pre-leased new development and the multiplier effect will drive down vacancy over the next several years




All else remaining equal, Amazon's initial lease will bring vacancy down to 15.8% from 18.4%; with future development and the high scenario multiplier effect, potentially as low was 10.8%

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*Source: Cushman & Wakefield*

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# Additional Long Island City Factors

# Long Island City by the Numbers

## Retail Development

**325K+** square feet existing*

**508K+** additional square feet by 2020**

* New buildings and renovated commercial ** Announced

## Commercial & Industrial Development

**7.5M** square feet existing*

**4.5M** additional square feet by 2020**

*New buildings and renovated flex commercial since 2004 **Announced

## Residential Development

**14,100+** Total units completed since 2006

**19,100+** Total units in planning/construction

- **5,200** 2017
- **2,900** 2018
- **11,000** 2019 and beyond

## Hotel Development

| CURRENT | | IN PLANNING / CONSTRUCTION | |
|---|---|---|---|
| **33** hotels | **3,100+** hotel rooms | **30** hotels | **4,200+** hotel rooms |

Long Island City Partnership

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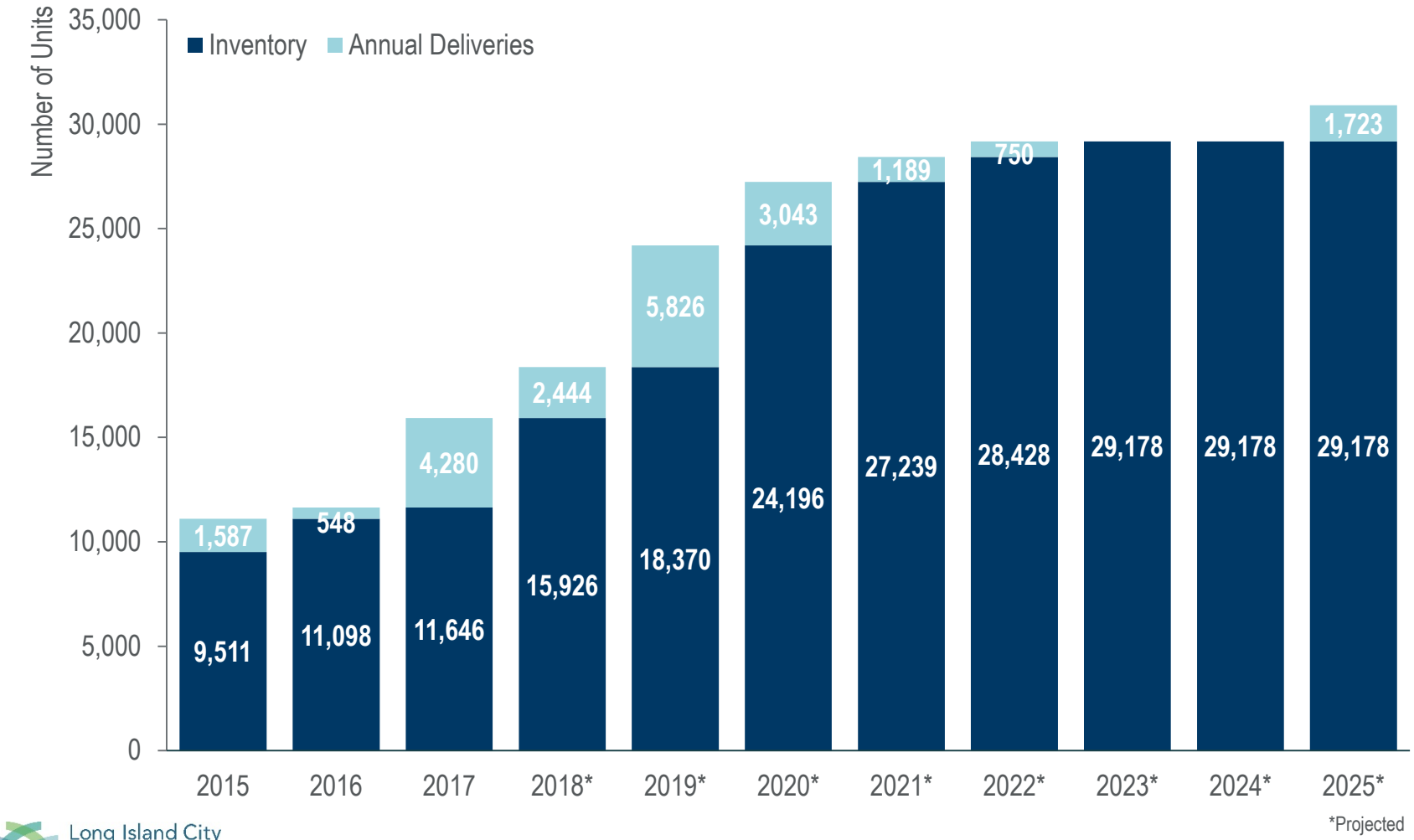
# Residential Impact

## Long Island City Annual Residential Development




Long Island City Partnership

Source: Long Island City Partnership, CoStar

## Potential Effects

- May have pronounced impact on multifamily market
- Amazon's presence will help to absorb oversupply from past four years
- Amazon's announcement will likely spur additional new development projects
- Current pipeline well-suited to support influx of residents over time

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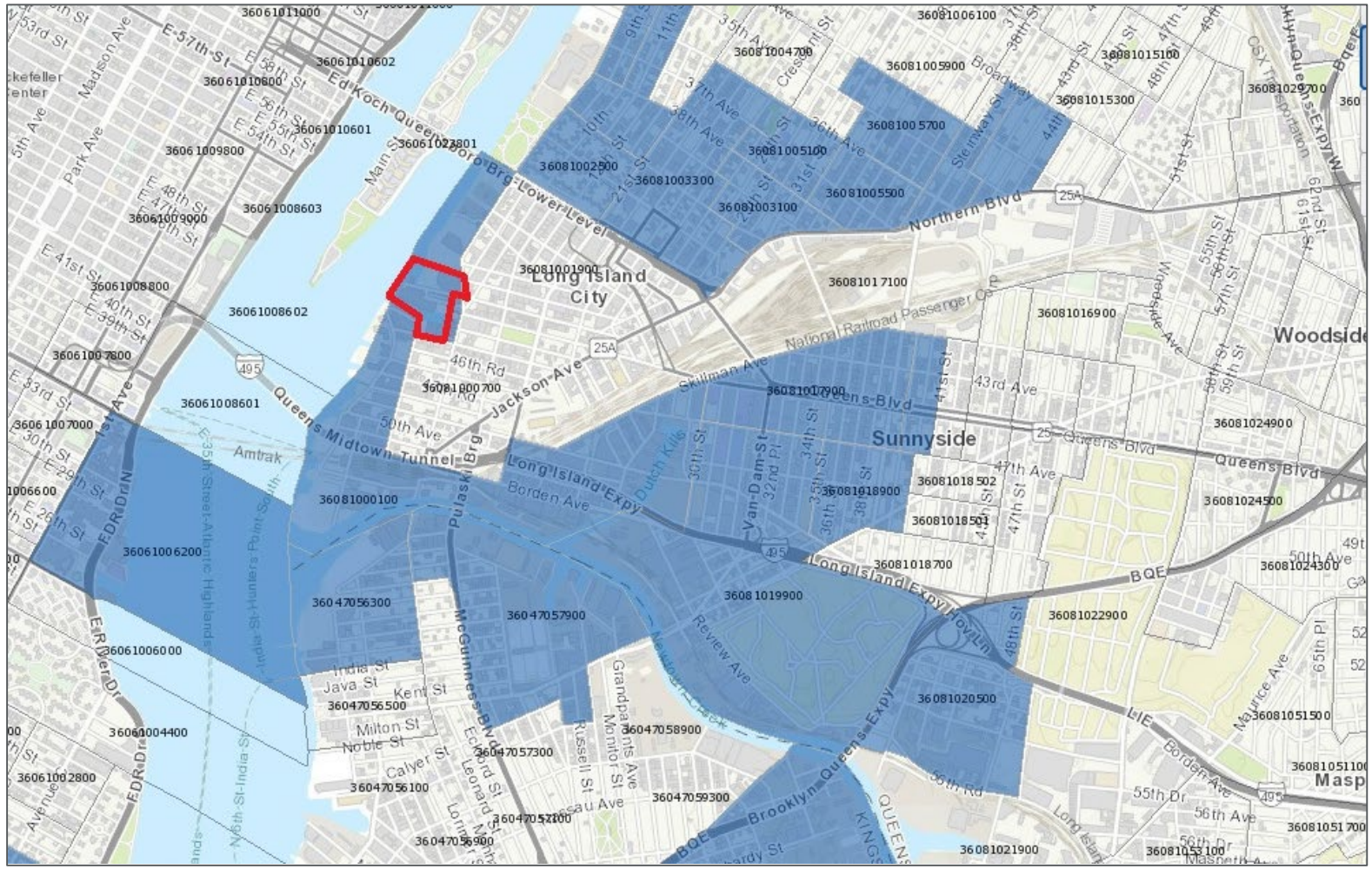
# Long Island City Opportunity Zones




## OZ Potential

- Amazon's LIC HQ2 will be located in a federally designated Opportunity Zone
- NYS officials have disclosed the company plans to take advantage of the incentives
- Examples of several uses include:
  - Public housing complex development
  - Business incubator
  - Coordinated projects with local community development groups

Source: Community Development Financial Institutions Fund, CoStar

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