

Team # 13

EMPIRE ★ ★ ★ ★ ★ STORES

DUMBO BROOKLYN



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Empire Stores is built
as a raw goods warehouse



Empire Stores abandoned



Midtown Equities wins RFP

Empire Stores reopens



1869

1885

1960s

2013

2017

Executive Summary

Empire Stores is an adaptive-reuse complex located in Brooklyn, New York. This former warehouse re-opened in 2016 and is now 476,642 SF of Class A retail, office, and cultural space. This six-story development is located on the East River waterfront at 55 Water Street in the DUMBO (Down Under the Manhattan Bridge Overpass) section of Brooklyn. To honor the 150-year history of the Empire Stores, the development team proposed an innovative vision for reinvigorating the empty coffee warehouses through contemporary design. The redevelopment prioritizes public space with views looking across the river at the Manhattan skyline.

The idea for the redevelopment of the Empire Stores has a storied history of multiple failed RFPs. When the final RFP was issued by the Brooklyn Bridge Park Development Corporation in 2012, it was a final attempt to preserve a seminal landmark of Brooklyn's industrial waterfront. Plagued by multiple fires and extensive structural damage from Hurricane Sandy in late 2012, the Empire Stores desperately needed capital investment and community support to prevent its demolition. The transformation of the Empire Stores into a successful anchor for and its location as one of the few waterfront office spaces primes development as a key driver of economic growth in New York City. The Empire Stores is a credit to the collaboration of the Private-Public Partnership between the Brooklyn Bridge Park Development Corporation and the development team that has reimagined the site as a creative community hub.

Project Overview

Name:

Empire Stores

Location:

55 Water Street, DUMBO
Brooklyn, New York

Project Type:

Mixed Use

Programs:

Retail
Office
Museum

Project Area:

476,642 SF

Development Cost:

\$137,700,000

Development Team:

Midtown Equities
HK Organization
Rockwood Capital

Architects:

Studio V Architecture
S9 Architecture
Perkins Eastman

Leasing:

JLL





Neighborhood Overview

“People used to call Brooklyn a walled city because warehouses formed a wall along the Brooklyn waterfront. Now, all that’s left are Empire Stores and the Red Hook building where Fairway used to be”

David Lowin,

Brooklyn Bridge Corporation

DUMBO, an acronym for Down Under the Manhattan Bridge Overpass, is bounded by the Brooklyn Bridge, Brooklyn Heights, and Vinegar Hill neighborhoods. As its name suggests, the Manhattan Bridge towers above the neighborhood. It is no coincidence that two major bridges cross over DUMBO; because of its strategic location for importing goods to New York City, the neighborhood was at the heart

of Brooklyn’s bustling commercial and industrial waterfront in the late 18th and early 19th centuries. After manufacturing and shipping declined in the 1970s, DUMBO’s vacant warehouses attracted artists drawn by cheap rents and large open floor plates. Sensing potential, developer David Walentas of Two Trees Management Co. purchased a large swath of DUMBO’s building stock in the 1980s, transforming the industrial waterfront into an upscale residential and commercial neighborhood. DUMBO has become one of the most dense arts districts in New York City, filled with non-profit institutions and art galleries attracted by its industrial era authenticity and architecture. The DUMBO Archway, a traditional connection between warehouses and the waterfront, has become a popular location for film shoots, art exhibitions and live music. In 2007, DUMBO’s historic district status was officially awarded by the New York City Landmarks Preservation Commission. This district spans between John Street

on the north, York Street on the south, Bridge Street on the east, and Main Street on the west. 95 of the buildings in this district also received landmark status.

More recently, the neighborhood has attracted a tech workforce as part of the larger Brooklyn Tech Triangle Plan that encompasses DUMBO, the Brooklyn Navy Yard, and Downtown Brooklyn. Incentivized by government initiatives such as New York City's Relocation and Employment Program (REAP), tech firms have both relocated to and sprouted in DUMBO. With companies in the TAMI sectors (Technology, Advertising, Media and Information), DUMBO now offers many of the same development and employment opportunities as Manhattan.

However, DUMBO suffers from a lack of pedestrian accessibility due to the two bridges and major transportation networks cutting through the neighborhood. For example, the route from the subway to Empire Stores requires navigating heavily trafficked streets. Empire Stores is an

8 minute walk from the York Street F station, 9 minutes from the High Street/ Brooklyn Bridge A and C lines, and a 5 minute walk from the convenient but underutilized East River Ferry. Compared to the planning of neighborhoods like Hudson Yards formed around major transportation arteries, DUMBO's lack of convenient transportation has made its office supply less attractive than that of other areas.

Opportunity

The history of Empire Stores reflects the coming of age of Brooklyn, New York City's largest borough. Built on a late-18th century landfill, the site on Waters Street contained ship outfitting industries in the 1830s. In 1869, James Nesmith, a merchant, replaced the early onsite warehouses with the large Empire Stores building, which was used for storing raw products including spices and coffee; "stores" referred to



the building's storehouses. Though it appears to be a single, monumental building, the Empire Stores are in fact seven warehouses separated by solid schist walls, framed with lumber sourced from America's primordial forests. The building, which had originally included a dock, is representative of the waterfront landscape that gave Brooklyn its nickname as the "walled city."



In the early 20th century, the coffee-magnate Arbuckle brothers purchased Empire Stores to serve as a storage facility for their unroasted beans, part of a sprawling 11-block complex. With the rise of trucking and the decline of shipping, the structure became abandoned in the 1950's, and after brief ownership by Consolidated Edison Electrical Company, Empire Stores was designated a historic landmark in 1977 as part of the Fulton Ferry Historic District.

"The Empire Stores are superb examples of the vernacular and functional architecture of the third quarter of the 19th century"
Fulton Ferry Historic Report, 1977

One year later, it came under the purview of the New York State Office of Parks, Recreation and Historic Preservation.

Ever since, many have recognized Empire Stores' redevelopment potential, with the 1977 Fulton Ferry report noting that since the 1960s, it was "considered ideal by a developer for... a complex including a restaurant and an arcade with stores, similar to Ghirardelli Square in San Francisco." Since then, many redevelopment proposals have come and gone, including plans in 1991 and 1999. The buildings sat vacant for another thirty years.

"People had been talking about doing something here for decades. If this one hadn't worked, I'm not sure there would have been another one. I think it might've been headed into becoming... a ruin. This might've been its last chance at a new life." -
Pat Arnett, Silman

In 2002, it seemed like things were finally turning around. Developer Shaya Boymelgreen, a fixture of New York real estate, had taken on Empire Stores' redevelopment with a \$140mm plan to convert the derelict warehouse into an office and retail mecca. Boymelgreen brought on Jay Valgora, a preeminent waterfront architect in New York City, who proposed a sensitive glass and steel rehabilitation that celebrated and modernized the historic complex. David Walentas of Two Trees Management Co, who vied for development rights but was ultimately outbid, did not believe Boymelgreen could achieve the rents to justify his vision, and he was right: in 2006, the Empire State Development Corporation ended their partnership with Boymelgreen after the project had languished for years.

When the final RFP was issued in 2012, it seemed like a make or break moment to preserve a seminal piece of Brooklyn waterfront history. That year, Hurricane Sandy had severely compromised the structural integrity of the complex, and combined with years of sinking foundations and tilting walls, Empire Stores was on its last legs. Although Boymelgreen had failed, his mixed-use program was lauded by the community and became written into the park's 2005 General Project Plan, drafted while his development was in its initial stages. The GPP cemented a mixed-use office and retail concept into any future plans for the site, including the 2012 RFP.

“Whenever people walking through got to the roof, they caught their breath. The view was amazing. It became very important that there would be public access to the roof. That amazing view should be something that all the public should share”

**David Lowin,
Brooklyn Bridge Corporation**

Before issuing the 2012 RFP, the Brooklyn Bridge Park contacted developers they thought might be interested, led site walkthroughs, and spoke with public and civic entities. The RFP stipulated that in addition to generating revenue, the site would contain an exhibit telling the story of Brooklyn's industrial waterfront history, financed at the developer's expense. During community advisory meetings held by the park, the museum concept was well received. Meeting participants also noted that the length and orientation of Empire Stores essentially forms a wall

to the waterfront - recalling Brooklyn's "walled city" - and would benefit from some public access across the length of the site. BBP translated these concerns into program requirements including 3,000 SF of public rooftop access, public access across the building, public restrooms, and designated park storage space. A glass rooftop addition was also considered, and after receiving approval from the State Historical Preservation Office, was indicated as a possibility in the RFP.

Development Vision & Team

When Midtown Equities was looking for a partner to bring onto their Empire Stores RFP submission, longtime Brooklyn developers HK Organization's expertise in historic preservation stood out as a perfect complement to their own extensive retail experience. Midtown's recent transformation of an abandoned Miami rail yard into a live-work-play neighborhood paired well with HK Organization's strong local track record of project management and construction in DUMBO. Midtown Equities took the lead on the project, and the sponsors brought on Rockwood Capital as a limited equity partner. A real estate investment firm representing institutional clients including pension funds, insurance companies, and sovereign wealth funds, Rockwood's focus on long term civic value and sustainable design made it an ideal joint-venture development partner.

In preparing their RFP, the developers organized a design competition to reinvent the space. Because Boymelgreen's 2002 proposal was so well received by the community, the team

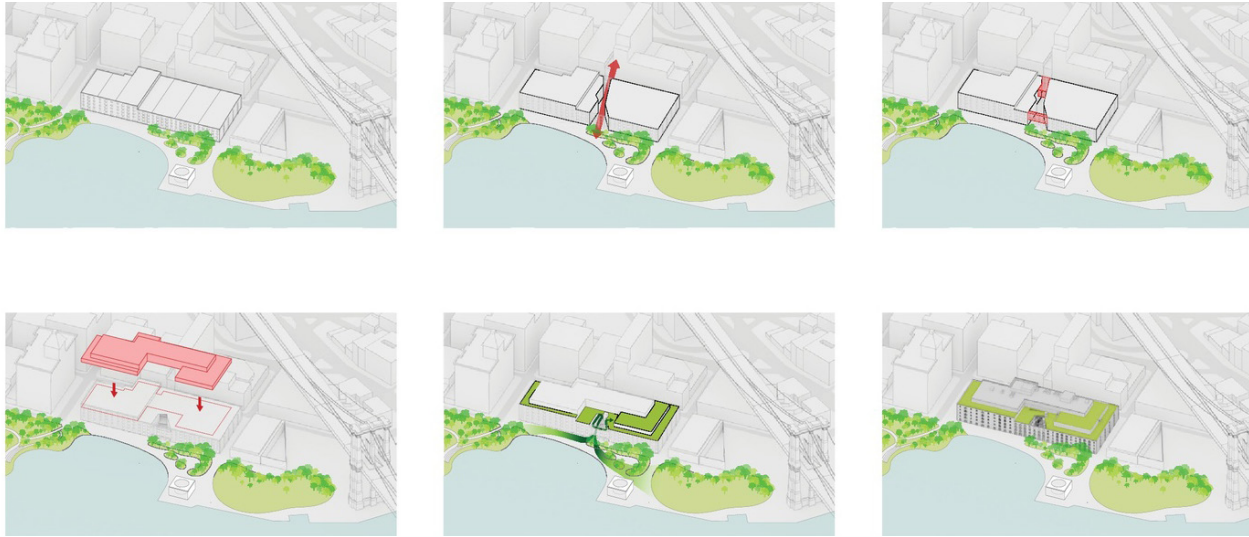


Image : Diagram showing cut for public space

decided to employ the architect who had developed the original plans, Jay Valgora of Studio V. To respond to the RFP requirement for public access across the length of the building, Valgora developed the idea of creating a slice through the building: a public courtyard that would act as the “Commons” to function as a social condenser and tie the different programs together. This “cut” from the street side to the waterfront formed the public core of the design, and tied together the surrounding park and its many amenities with the site.

“[The developers] promised the most community space. That slice through the building open 24/7 was a huge selling point. It was something that brought you to the water rather than keeping a giant wall to the water.”
Paul Evans, Silman

Studio V

In their RFP, the developers utilized an unheard-of tactic: the developers secured a 20-year lease from their proposed anchor tenant, furniture maker West Elm, including both a 140,000 SF office to serve as their new global headquarters and a 11,000 SF ground floor retail lease. While other developers’ RFP proposals included letters of intent, the team went one step further by locking in one of the few major tenants in DUMBO at the time. A display of capability and confidence, it not only gave their response a competitive advantage, but also allowed the developers to bid more aggressively: with the anchor tenant secured, much of the development risk had been eliminated and a benchmark for leasing expectations was set. This tactic had a profound impact on the bidding war that ensued between the developers and Two Trees Management Co after BBP narrowed down the ten RFP responses to these two finalists. Once again, the finalists included David Walentas of Two Trees Management Co., and once again, Walentas was outbid. Midtown Equities’s team offered “significantly” more money

than Two Trees, not only because of the record-breaking numbers they already achieved with West Elm, but also their prescient optimism regarding rent expectations.

“Having worked in that area for so long, [Two Trees] were skeptical that the numbers in DUMBO were going to go up as much as Midtown clearly thought they were”

**David Lowin,
Brooklyn Bridge Corporation**

Before signing the ground lease, the Brooklyn Bridge Park received a personal guarantee from Joe Cayre, the patriarch of the family-run Midtown Equities office, performed due diligence on the developers, and negotiated the ability to exercise recognition agreements with the largest tenants.

Development Team

Brooklyn Bridge Park Corporation

With its operating mandate of financial self-sufficiency, the non-profit Brooklyn Bridge Park Corporation oversees and maintains the Brooklyn Bridge Park. Located along a 1.3-mile stretch of Brooklyn waterfront bounded by Atlantic Avenue and Jay Street, the 85-acre park was designed by Michael Van Valkenburgh Associates, a renowned landscape design firm, and includes six piers containing public spaces and residential developments. The first phase of the park which bounds Empire Stores was opened in 2010, and to date more than 90% of the park is complete.

Midtown Equities

The real estate investment platform of the Cayre family, Midtown Equities has a portfolio of over 100 properties across asset classes and major domestic markets, including some of New York City’s most revered addresses. The developer’s long-term hold perspective translates into a focus on well-crafted and well-maintained buildings that stand the test of time, with projects including One World Trade Center, 141 Fifth Avenue, as well as office, mixed use, residential, and retail developments across Brooklyn.

HK Organization

HK Organization (HKO) founders Harry Kotowitz and Howard Klaus have a combined experience of more than 50 years in the real estate industry, developing millions of square feet across commercial, residential, and industrial assets. Beginning in the early 2000s, HKO has played an instrumental role in the development of Downtown Brooklyn, the Brooklyn Tech Triangle, and DUMBO, developing some of the neighborhood’s first luxury apartments. The developers are well-versed in historic building preservation and adaptation, with projects including the Smith Gray Building and 99 Gold Street in nearby Vinegar Hill.

Rockwood Capital

With offices in New York and California, Rockwood Capital invests across the multifamily, retail, office, hotel, and data center spaces. On behalf of their many institutional investors, the highly experienced team at Rockwood has invested approximately \$32 billion in real estate funds and separate accounts, with a focus on sustainable buildings that deliver dependable cash flows to their members.



Image: Interior view (Studio V)

Studio V Architects

One of the most prominent waterfront architecture firms in New York City, Studio V also has extensive experience across adaptive reuse, historic rehabilitation, and transit oriented development projects. These include Halletts Point, an adaptive reuse neighborhood-scale project; a masterplan for historic Richmond Town on Staten Island, one of the most complete historic campuses in New York City; and the Tanks at Bushwick Inlet Park, an adaptive reuse project that transformed former oil tanks into a garden, oyster farm, and art and performance space. In addition to Studio V, the project design was supported by S9 Architects and Perkins Eastman.

Silman Structural Engineers

Since its founding in 1966 as a one-person practice, Silman Structural Engineers has expanded to four offices with more than 23,000 structural engineering projects completed. A leader

in historic preservation and rehabilitation, Silman has worked with leading architects across all property types to support forward-thinking design that celebrates the past and present.

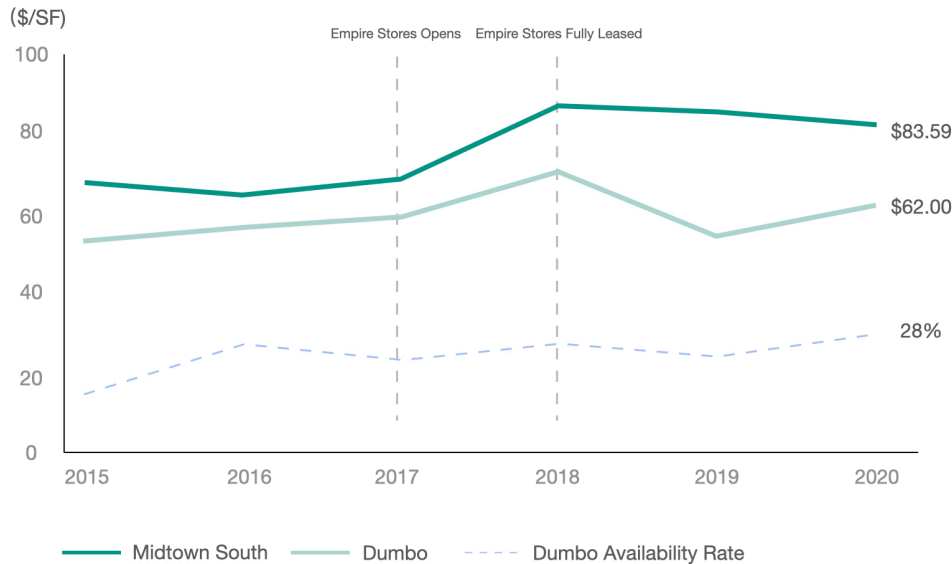
Market Analysis

“All of the web-based tenants had started in DUMBO because the space was so cheap, and had a coolness factor that those kinds of companies liked. A lot of the companies were becoming more mature and looking for better office space. And this building is clearly the best building in that market.”

**David Lowin,
Brooklyn Bridge Corporation**

With the arrival of Etsy’s HQ in DUMBO Heights in 2014, many believed that the neighborhood was poised to rival Manhattan’s Midtown South as New York City’s next tech office frontier. Its inventory of 4.1 million square feet is composed almost exclusively of brick and beam spaces - industrial lofts with modern improvements - an increasingly popular office type for creative companies and some financial services firms. DUMBO’s waterfront location and original 19th century buildings had already made the neighborhood attractive to young professionals: the area’s median age is 35 with only 22% of households with children. Within a population of 62,000, 97% of DUMBO’s workforce is white collar employees, with a median income of \$155,00 within the 25-44 age group.





The million dollar question: would a tech hub materialize?

At the beginning of the 2010’s, a series of plans heralded Brooklyn as the destination for New York City’s growing tech office tenants, and a rivalry ensued between Manhattan and Brooklyn for the burgeoning market. Buoyed by recent HQ leases by WeWork and MakerBot, the Brooklyn Tech Triangle, a 2013 workforce development initiative anchored by Downtown Brooklyn, DUMBO and the Brooklyn Navy Yard, sought to increase the attractiveness of the area for a tech workforce. While the demand for office space in the Brooklyn market experienced steady growth up until the mid-2010’s, the remainder of the decade tells a different story. According to The Real Deal, Brooklyn’s office market has recently “gone from underserved to bloated,” with the product coming online in the last half of the decade facing a drying pool of tenant demand. In the past five years, as its amount of available space has spiked more than

50%, average DUMBO office asking rents have effectively flatlined, averaging an increase of 1% per year through 2015-2020. Though DUMBO’s current asking rent of \$62/PSF is the highest in Brooklyn, it has a vacancy rate of 28%. While several recent large-scale Brooklyn office developments have outperformed expectations, including Empire Stores as well as Boston Properties’ tech-centered Dock 72 at the Brooklyn Navy Yard, other developments have not been so lucky. In the meantime, “Silicon Alley” has risen to prominence in Manhattan’s Flatiron district, which, coupled with the recent opening of Hudson Yards, reinforced Manhattan’s dominance in the New York City tech office market. While DUMBO and Midtown South’s asking rents nearly overlapped earlier in the decade, by 2020 they had diverged, with a 20% premium on the latter’s asking rents.



Financing

JV Structure

Midtown Equity, HK Organization, and Rockwood Capital, signed a joint venture agreement wherein Midtown would contribute 10% of the equity in their role as the development sponsor, and Rockwood would contribute 90% of the equity as the capital partner. For their construction and project management services, HKO received a nominal share of interest in the development.

Ground Lease

The equity partnership negotiated a 96-year ground lease with the Brooklyn Bridge Park Development Corporation beginning in October 2013 and expiring in 2109. The agreement involved an initial lease acquisition payment of \$26mm, followed by annual ground lease rents starting in year four at \$1.5mm with annual 2.25% increases. A participation rent clause of approximately 8% began to reap significant benefits for the park in 2019, when the 8% share of NOI exceeded the stipulated ground rent, although this was wiped out in 2020. Over the life of the lease, ground rent payments are projected to contribute a net present value of \$60mm towards the park's maintenance and operations, suggesting an opportunity cost of capital of around 4% for the BBP (if participation rent is not considered) and a net income of approximately \$86mm. Though this ground rent is considered low in comparison to typical ground leases - underwriting standards generally call for ground leases to be less than 15% of EGI, and Empire Stores does not exceed 8.5% of gross revenues (see Appendix: Table 1). The Brooklyn Bridge Park did not

have high initial expectations for profit.

"We were trying to save the building. Even if we saved the building and made no money on it, it was still going to be good for us."

David Lowin

Brooklyn Bridge Corporation

BBP also earns payments in lieu of taxes (PILOT) from the developers, as well as payments in lieu of refinancing and state taxes, which would otherwise be collected by the city (PILOMRT and PILOST, respectively).

Construction Loan

The developers secured a \$95 million construction loan from M&T Bank, covering the complex, two-year long historic rehabilitation project. The loan financed approximately 70% of the total development costs, including the initial lease acquisition payments, as well as construction and leasing costs. Though there were slight delays, the complex construction proceeded without major delays or budget increases. Following

Sources	%	psf	Total Cost
Developer Equity	31%	\$96	\$42,400,000
NEH Grant	0.2%		\$300,000
Construction Loan	69%	\$214	\$95,000,000
<i>Total</i>	<i>100%</i>	<i>\$311</i>	<i>\$137,700,000</i>

Uses	%	psf	Total Cost
Land Acquisition	19%	\$59	\$26,000,000
Clothing Costs	1%	\$5	\$2,000,000
Financing Costs	3%	\$11	\$4,700,000
Soft Costs	8%	\$25	\$11,000,000
Leasing Expenses	25%	\$79	\$35,000,000
Hard Costs	40%	\$124	\$55,000,000
Construction Interest	3%	\$9	\$4,000,000
<i>Total Uses</i>	<i>100%</i>	<i>\$311</i>	<i>\$137,700,000</i>

the approval of entitlements, designs, and with a few signed leases in place, Midtown Equities' estimated the land value at north of \$100mm, approximately \$20mm more than the valuation of BBP's ground lease revenue and 250% greater than the total initial equity in the project.

NEH Grant

A \$300,000 grant from the National Endowment for the Humanities (NEH) went towards supporting a display showcasing the maritime legacy of the Brooklyn waterfront and the story of the Brooklyn Bridge Park development, curated by the Brooklyn Historical Society.

Leasing Strategy

"the West Elm [office lease] is a record for a deal...It says Brooklyn is worth \$50 per square foot."
Chris Havens, aptsandlofts.com

When leasing began in late 2014, Empire Stores' anchor lease with West Elm at \$46/PSF shattered the rent ceiling for Brooklyn offices and set a benchmark for the development. The rooftop asking rent of \$85/PSF also broke records, though the developers included free rent clauses and large tenant improvement packages in many leases. A number of tenants also took advantage of New York City's Relocation and Employment Program (REAP), in which companies relocating to Brooklyn from other locations in the city are eligible for a yearly tax credit of \$3,000 per employee for 12 years.

In the wake of Hurricane Sandy, the developers addressed concerns

regarding business continuity and the building's waterfront proximity by installing 24/7 backup generators and flood prevention technologies. Known as "redundancy," the generators convinced potential internet-reliant tenants that they would avoid disruptions in case of any natural disasters, and the developers' flood prevention techniques also satisfied lender insurability concerns. Flexibility proved to be another key lease up strategy. When multiple tenants were interested in the rooftop space, the developers satiated companies like 72andSunny, who had vied for the space, by offering complimentary employee memberships to SoHo DUMBO, the member's club that was signed to the rooftop. The operators of SoHo House had a prior relationship with Midtown Equities stemming from their tenancy in a Midtown building in the Meatpacking District. When SoHo DUMBO requested a private entrance, the developers reassigned an elevator intended for office tenants to be used exclusively by the club.

Despite these negotiations, the developers failed to attract their ideal mix of brand-name office tenants. Though they piqued the interest of firms such as Tesla, disagreements over economics ultimately dissolved a number of deals. During negotiations, these firms may have sensed that Empire Stores' high asking rents did not reflect DUMBO's relatively untested fundamentals. Despite tenant reservations, the developers signed a strong mix of office tenants in the advertising and tech sectors, achieving 80% lease up by the end of construction. In March 2018, 10 months after opening, Empire Stores became fully leased with the signing of Time Out

Market as the food hall operator.

Refinancings + Buyouts

The project was refinanced in 2017 with a \$250mm loan from M&T Bank, and again in 2019 with a \$280mm loan from AIG, giving Empire Stores an estimated valuation of \$415mm. The 2019 loan has a term of 15 years and a coupon in the low 4% range. This refinancing, which represents a 320% increase in value of the developers' initial equity investment, allowed Midtown Equities to buy out Rockwood's stake for \$40mm. This mutually agreed upon exit corresponds to the typical investment duration for a fund manager like Rockwood, who had already experienced strong returns due to the project's unexpectedly strong performance, and allowed Midtown greater control of the project that they had spearheaded.

Performance to Proforma

The project outperformed all expectations and as of 2018, achieved an in-place NOI of more than \$21mm, approximately 15% higher than both the developers' and public partner's initial projections for 2018. As of 2019, retail rents ranged from \$60/PSF to \$160/PSF. On the low end of this spectrum are parts of the Time Out Market and West Elm retail space, while ground-floor restaurant tenants pay the highest prices. Office rents range from \$47/PSF to \$80/PSF, achieving numbers unheard of in the Brooklyn office market just a few years prior. On the rooftop, SoHo DUMBO brings in a whopping \$200/PSF.

Exit Strategy

Midtown Equities' acquisition of Rockwood Capital's equity suggests the developer is planning on a long term hold

of the asset. In fact, according to David Lowin, the Cayre brothers often visit the site with their children and remark on handing Empire Stores down to the next generation:

“Michael and Jack [Cayre] have kids in grade school who they bring to the site all the time and talk about how ‘one day this will all be yours’” -

**David Lowin,
Brooklyn Bridge Corporation**

The ground lease is set to expire in 2109. While it is unknown whether the state will renew its contract with the BBP and thus the developers, there is no exit strategy on the developers' immediate horizon. As the lease term begins to expire, BBP plans to be in communication with the state regarding its intentions for the site. Without a clear understanding of the state's plans in the years leading up to the ground lease expiration, the value of the site from an investors perspective may begin to decline. With the success of the park and its 5 million annual visitors, the state appears incentivized to continue this ground lease in perpetuity.

Planning & Entitlements

Brooklyn Bridge Park

As a key piece of the city-state effort to transform 1.3 miles of Brooklyn's former industrial waterfront, Empire Stores is the product of two decades of civic planning. Much of the land that became the Brooklyn Bridge Park was owned by the Port Authority, whose plan to redevelop the site as a residential neighborhood



similar to Battery Park City was vehemently opposed by local residents. Following a decade of government and community involvement, the Downtown Brooklyn Waterfront Local Development Corporation was established to explore other possibilities for the site. With funding from the New York State Legislature, a masterplan for the Brooklyn Bridge Park was forged in 2000. The Brooklyn Bridge Park Development Corporation (BBPDC), led by an 11-member board appointed by the Mayor and Governor, was formed to realize this vision, and in 2005, New York State's General Partnership Plan (GPP) formally laid out the plan for the park. While the city and state agreed to fund the construction of the park, operating costs were to be financed through onsite revenue-generating developments. The park designated five sites, including Empire Stores, as part of this operating mandate. In 2010, Empire Stores were transferred from the Empire State Development Corporation (ESDC) to the Brooklyn Bridge Park Development Corporation (BBPDC) who put together the RFP. The Brooklyn Bridge Park leases

the site from the state, which administers the ground lease. The BBP in turn subleases the site to the developers, and both the park's ground lease from the state and Empire Stores' sublease share the same expiration of 2109.

Historic Designations

Part of the Fulton Ferry Historic District since 1977, the building is on both the National and State Registers of Historic Places, and is owned by the state, which exempts it from city Landmarks Preservation Committee (LPC) oversight. Instead, it is under the purview of New York's State Historic Preservation Office (SHPO). Although the BBP considered applying for historic tax credits, they ultimately chose not to, believing that the glass addition atop the structure would exempt Empire Stores from approval.

Special Scenic View District

The GPP enables the park, including Empire Stores, to override certain local municipal codes, including zoning requirements. Although it is not bound

by its designated M1-3 and MX-2 zoning, Empire Stores conforms with the park’s Special Scenic View District, which prevents the park buildings from obstructing the Manhattan skyline views from the adjacent Brooklyn Heights Promenade.

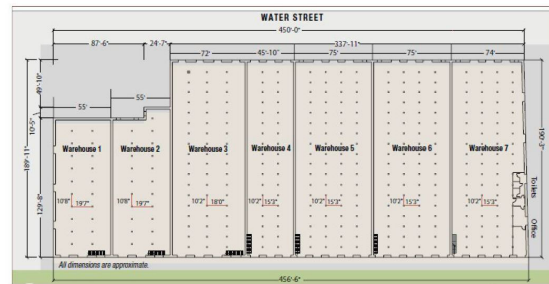
Land Swap

Empire Stores was involved in a land swap stemming from a 2011 lawsuit filed by the Brooklyn Heights Association, Landmark Conservancy and others claiming the National Park Service violated federal laws by removing the Empire Stores and the Tobacco Warehouse from protected parkland. As a result, the sites were “swapped” with a parcel of city-owned land adjacent to the park that was developed into various protected parkland uses, including public bathrooms, an educational center and outdoor amenities.

Entitlements

As a historic landmark rehabilitation, the developers were concerned that their designs would face extreme scrutiny and potential delay due to the sensitive nature of the project. To alleviate their concerns, while the developers negotiated their lease with the park and finalized their architectural designs, the Brooklyn Bridge Park served as a conduit between the developers and SHPO. This clear line of communication between BBP, the developers, and both SHPO and LPC, gave the developers confidence that their designs would be approved in a timely manner. Although LPC did not have jurisdiction over the designs, they were consulted during the process.

Building Analysis



Warehouse	1	2	3	4	5	6	7	TOTAL
Gross Square Feet*	35,795	33,350	64,175	33,388	54,616	54,648	51,724	327,696
Floor Plate	7,159	6,670	12,835	8,347	13,654	13,662	12,931	
Floors	5	5	5	4	4	4	4	

Image : Existing building layout (Midtown Equities)

Though it appears as one continuous brick structure, Empire Stores is a collection of 7 contiguous 4 and 5 story warehouses separated by solid fieldstone schist partitions. Ranging in width from 45 feet on the west side to 75 feet wide on the east side and spanning an entire block, the total footprint is about 75,000 SF. Original ceiling heights ranged from 10 ½ feet to more than 12 feet. The facade is constructed from two foot thick load-bearing walls of brick masonry, with the original grid of columns, girders, and joists framed with pine lumber. In order to connect the separate warehouses, the Silman team identified cracks in the schist partitions between warehouses where new openings could link the buildings. This modified the original architectural scheme, which called for carving a plethora of openings, in order to preserve more of the building’s original character. The State Historic Preservation Office (SHPO) reviewed the drawings as the project was being designed. The rehabilitated building has 476,642 gross SF and 442,151 rentable SF as a result of a two story addition added to the existing 330,000 gross SF.

“Studio V’s proposal was brilliant - the way they created a slice through the building to create engagement from the sidewalk street to the waterfront...a big move, bold move, and I think it really paid off.”

Pat Arnett, Silman



Image: Interior courtyard (Studio V)

Public atrium

Partly inspired by public programming along the High Line, the Studio V’s courtyard “cut” is framed by an exterior stair that connects retail spaces on the ground floor to the roof. Restaurants and a beer garden on the top floor are arranged around a rooftop terrace and green roof facing the waterfront. Private

outdoor terraces for office tenants are also located on this floor with views of the East River bridges and Manhattan skyline.

Cultural Programming

A 3,200 SF second floor exhibition space served as a satellite location of the Brooklyn Historical Society. The exhibition space, which does not pay rent, is funded by a \$300,000 grant from the National Endowment for the Humanities that resulted in “Waterfront”, a long-term multimedia and interactive exhibit showcasing Brooklyn’s waterfront history, as well as the history of the building and the Brooklyn Bridge Park.

Retail

Empire Stores features 65,082 SF of rentable retail space, with tenants including West Elm, Sugarcane, Cecconi’s, FEED, J Crew, and Shinola. Time Out Market New York, a collection of iconic New York food vendors, is the largest retail presence at Empire Stores with 520 indoor and outdoor seats across three floors. In addition to food stalls, three bars, a stage for cultural activities, and a rooftop terrace complete this immersive space.

Office

Empire Stores features 377,929 SF of rentable office space. In addition to serving the West Elm HQ, other office tenants include Newell Brands, 72andSunny, WMG, and SoHo DUMBO. Because of their preexisting relationship with SoHo House as their landlord in the Meatpacking District, Midtown Equities brought in SoHo House a tenant to Empire Stores, where they have a rooftop space complete with a pool. SoHo DUMBO was a great attraction for other

tenants considering office space in the building.

Adaptive Reuse Challenges

Empire Stores survived many challenges to its structural integrity since its construction in 1869-1885, including multiple fires. After the park transferred ownership from the city to the state in 1978, Silman Structural Engineers became involved with caring for the building. The firm's founders added new anchors and steel to roof repairs and assisted with the adjacent Tobacco Warehouse, a similar brick structure. In a major snowstorm in 2001, a large section of the Tobacco Warehouse collapsed and the building was slated by the city for demolition. Local preservationists protested, and the dilapidated building was rehabilitated into St. Ann's Warehouse. Empire Stores faced similar structural challenges: in 2012, Hurricane Sandy flood surges reached six feet inside the building, pushing in boarded up windows, knocking over columns, and exacerbating its deteriorating foundations and collapsing walls. After winning the RFP, Midtown Equities called Silman Structural Engineers after seeing the firm's name across the building's preservation documents.

"This was such a beautiful example of the warehouse architecture that was the entire Brooklyn waterfront 120 years ago - and almost all were knocked down. There really was a desire to save that, and it was how we got our foot in the door."

Pat Arnett, Silman

The initial building survey revealed rotting timber piles, a compromised foundation, and deteriorating brick window arches. The reports also indicated a large crack in the northwest corner of the building contributing to its structural vulnerability. Sidewalk bridging was installed to protect passersby from falling bricks, and to bring the building up to code, Silman's engineers designed a new foundation. As the building was slowly sinking into the river, the new foundation would be partially pile-supported with a mat slab. Helical mini piles were designed to assist with the settlement of the building. Supports, reinforced with these piles, were poured under and into the existing brick walls.

To address tilting walls on the western end of the building, new beams threaded through the existing 3' thick masonry walls to bear on the new foundation. Exceptional care was taken by the engineers to preserve the original timber framing the building, with the survey team documenting every original piece. Any damaged timber frames were swapped out and replaced with steel framing. At the time of the survey, it was noted that the timber was in "good enough shape" that the building was tied together (except for the western end tilting away). The new addition of stainless steel rods at the corners helped tie the walls together and back to the structure. Original timber ceilings were maintained when possible. Timber removed during the construction of the new interior courtyard replaced damaged and missing elements elsewhere in the building. All of the exposed timber through the building today is from the original structure - no new timber was brought in for this project.

The original columns were spaced very close together. To create open floor plans attractive to potential office and retail tenants, the developers wanted the column spacing to be farther apart. The engineers designed a transfer grid that spread the loads of 4 columns to just one column, allowing for a more open floor plan.



Image Above: New Helical Mini Piles (Silman)
Image Below : New rectangular glass windows over existing arched openings

Another point of innovation and cost savings in the project was the design of rectangular glass windows that were set back on the brick walls instead of within the 437 existing (formerly open air) arched openings. This decision preserved the integrity of the masonry wall and saved \$300,000. In addition to preserving the masonry shell and stone schist partitions, Empire Stores has preserved the existing iron shutters on the facade. Original historic details from its coffee warehouse history such as coffee chutes and hoisting wheels are also retained throughout the building.

Sustainability and Resiliency Features

The original facade shell, stone schists (aside from new openings cut in to link the warehouses), and interior timber framing were kept. Aside from preserving a historic icon, rebuilding with the original





Image : Courtyard stair leading to the rooftop

structure allowed for reduced energy and cost savings compared to new ground up development.

LEED Silver Status

LEED status was granted based on the building's many sustainable features, including recycled bricks and original timber reuse. The building's green roof reduces the urban heat island effect, and stormwater is collected in a cistern that helps irrigate the public park. Even though the building's historic designation exempts it from meeting energy codes, the design team analyzed the building's thermal energy, and its enhanced roof insulation, high performance windows, green roof, and 3' brick walls exceeded energy code requirements. The design's exposed brick walls and timber ceilings reduced costs by necessitating less insulation.

Flood Resilience & Continuity

To protect the building from flooding, the AquaFence retractable flood wall was purchased to wrap the building.

Compared to repairing the building's shutters, this proved to be the most cost effective flood mitigation solution. Stored when not in use, the fence is tested twice a year. An onsite generator installed on the fifth floor behind the historic facade ensures continued power in case of natural disasters and emergencies. The backup generator is able to run 24/7 and given Water Street's elevation, trucks can deliver fuel to the generator during catastrophic floods such as Hurricane Sandy.



Image : AquaFence deployed around Empire Stores

Operational Issues

The lease up of the food court presented a challenge to the developers. Originally intended to be run by the operators of the Gansevoort Market in the Meatpacking District, the market sat vacant for ten

months as the parties negotiated terms. Eventually, the partnership did not work out and both sides mutually agreed to terminate the lease. Midtown Equities instead signed with TimeOut Market nearly one year after opening Empire Stores. This impaired the performance of smaller retailers who struggled without the significant foot traffic that an active food court would bring to the development, and led to several premature retail closures.

Prior to the pandemic, the Brooklyn Historical Society merged with the Brooklyn Public Library (BPL) and became the Center for Brooklyn History at Brooklyn Public Library. Due to operational redundancies, BPL recently decided to consolidate facilities by discontinuing the Empire Stores location. The development team is currently looking for another operator to provide a similar cultural function at Empire Stores.

Due to the restrictions in place to maintain public safety during COVID-19, the site's retail and office tenants have been impacted heavily. The developers are currently facing tenants requesting deferrals and breaking their leases, and we anticipate difficulty retenanting the building without significant rent concessions. Notably, however, Empire Stores' anchor tenant, West Elm, has performed exceptionally well during the pandemic. Still, the developers recently renegotiated 2020's ground rent payment to the park to be deferred across a 6-7 year period. Joe Cayre provided a second personal guarantee to support this amendment to the leasehold payments.

Development Impacts

“Empire Stores is emblematic of Brooklyn’s transformation from lapsed industrial powerhouse into a growing creative sector.”
Jay Valgora, Studio V

The Empire Stores redevelopment preserves a seminal part of the Brooklyn waterfront by bringing it into the 21st century. This success story in adaptive reuse contributes to the vitality of the Brooklyn Bridge Park, augmenting the local economy and providing a new public gathering space. Located on a prominent site bordering Brooklyn Bridge Park, Empire Stores offers views of the Manhattan skyline and Brooklyn and Manhattan Bridges through its large brick arches, interior courtyard stair, and publicly accessible roof terrace. Empire Stores brought a surge in activity to the park and St. Ann’s Warehouse, and has contributed to the development of the DUMBO waterfront as a vibrant mixed use corridor. Empire Stores has been recognized with numerous awards, including the NYC x Design On the Boards Awards (2017) and Urban Land Institute’s Awards for Excellence in Development (2018).

With its record-breaking rents, many developers hoped that Empire Stores would be the catalyst for transforming the DUMBO office market. Empire Stores contributed to a spike in average neighborhood asking rents between 2014-1, and using its rental rates as a baseline for their own adaptive reuse projects, investors began paying record

sums for DUMBO buildings, spurring a redevelopment frenzy that expected to replicate Empire Stores' numbers. However, the unique combination of factors that made Empire Stores so successful proved irreplicable: its iconic warehouse architecture, waterfront location and seamless integration with the Brooklyn Bridge Park, which welcomes 5 million visitors annually. With its singular presence, Empire Stores assuaged major reservations regarding DUMBO's pedestrian inaccessibility. Yet its successors were not so lucky: lured by expectations set by Empire Stores, developments including Kushner & Co.'s Watchtower portfolio were unable to emulate Empire Stores' success. As rental rates flatlined in the last half of the 2010's and a supply glut hit the market, the disadvantages of DUMBO won out and the neighborhood did not become the tech hub that many had hoped for. Instead of a harbinger of things to come, Empire Stores was an outlier.

For Midtown Equities, however, Empire Stores was a watershed moment. The developer, who had been active in New York City for years prior, shot to fame. Empire Stores was one of the first projects in which Midtown, traditionally a limited partner, served as the general, more active partner. Its success at Empire Stores ushered in a series of other landmark adaptive reuse projects for the developer, including the Battery Maritime Building. Midtown has continued its relationship with Rockwood Capital by repositioning historic One Broadway as a creative office and retail space, complete with a rooftop terrace - a must in every Midtown office project since Empire Stores.

Empire Stores is a testament to the fruitful collaboration between developers and public partners. This effort to reimagine a neglected cornerstone of Brooklyn's industrial history has redefined the waterfront while preserving its legacy. Although the pandemic presents significant near-term operational challenges, the building's compelling design and location will remain attractive to new tenants and programs regardless of industry. Once the health crisis subsides, the unique conditions that have positioned Empire Stores a resource for the DUMBO community indicate that the development will continue to be a relevant and dynamic waterfront asset. The key to its success, Empire Stores' irreplicability suggests that it once again will flourish.



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Appendix

Annual Base Rent	
Year 1 (2013)	\$26MM (\$10MM at Escrow Agreement execution + \$16MM at release of Lease from Escrow)
Years 2-3	\$0
Year 4	\$1.55 MM
Years 5 - 25	102.25% of prior year's Annual Base Rent
Year 26	Greater of 8.5% of average Gross Revenues for prior 3 years or 102.25% of Y25 Annual Base Rent
Years 27 - 50	102.25% of prior year's Annual Base Rent
Year 51	Greater of 8.5% of average Gross Revenues for prior 3 years or 102.25% of Y50 Annual Base Rent
Year 52 - 75	102.25% of prior year's Annual Base Rent
Year 76	Greater of 8.5% of average Gross Revenues for prior 3 years or 102.25% of Y75 Annual Base Rent
Years 77 - 96	102.25% of prior year's Annual Base Rent
Percentage Rent	
Each Year	Excess of 8.5% of Gross Revenues for that year over Annual Base Rent for that year

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Pat Arnett, Principal at Silman. Zoom Call: November 3, 2020.

David Lowin, Executive Vice President of the Brooklyn Bridge Park Corporation. Zoom Call: November 6, 2020.

Paul Evans, Senior Engineer at Silman. Zoom Call: November 3, 2020.

Mehul Patel, Chief Operating Officer at Midtown Equities. Zoom Call: November 10, 2020.

Jay Valgora, Principle, STUDIO V Architecture, PLLC. Zoom Call: November 4, 2020.

Alvin Kong, previously Associate at Midtown Equities, Zoom Call: November 16, 2020.

Jenna Santoro, Development Manager at Midtown Equities, Phone Call: November 16, 2020.

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