JULY 2020

RESILIENT DOWNTOWN BROOKLYN:
BUSINESS NEEDS FOR RECOVERY + CONTINUED GROWTH

Downtown Brooklyn is home to more than 5,000 businesses of all sizes, including 1,200+ tech and creative firms with office space in the district. As non-essential businesses shifted to remote work in March due to the COVID-19 pandemic, and adjusted operations in response to rapidly changing economic conditions, they experienced significant disruptions.

Through direct interviews with and surveys from nearly three dozen founders, business leaders, and industry experts, this report:

- Illustrates the impact of the crisis on business operations, continuity, and workforce for Downtown Brooklyn firms
- Provides insight on business needs to sustain operations in the coming year and firms' outlook on returning to the office
- Offers immediate and near-term recommendations to support Brooklyn firms and ensure Downtown Brooklyn remains a center of economic activity and opportunity

KEY FINDINGS

Brooklyn firms are cautiously optimistic, despite financial setbacks: 41% of firms report cash flow challenges and 63% projected revenue loss. However, about 20% – primarily venture-backed startups – report growth with new demand.

Most jobs remain in place, with notable growth for some during lockdown: About half (53%) of firms have maintained staff count since the crisis began, and 22% report continued hiring and recruiting. One-quarter of firms (25%) have laid off or furloughed staff in response to financial strain

Tech sector is more resilient: Despite some project delays and supply chain shortages, tech-enabled startups and incubator firms have experienced fewer layoffs and disruptions than non-tech firms, with approximately half recruiting and onboarding new staff remotely.

Unwavering confidence in the Brooklyn brand: Founders and executives recognize the borough's value for talent recruitment and business development, and remain committed to keeping a local presence while reconsidering the role of the office. Most firms are approaching reopening conservatively, guided by concerns about child care, commute safety, and employee wellness.

Potential for new Downtown Brooklyn office tenants: More businesses may pursue office space in Downtown Brooklyn as their Brooklyn-based workforce seeks to avoid public transit to Manhattan.

Critical need to support restaurant + retail recovery: Firms place high value on quality of life for recruiting and retaining employees, and thus the health of Downtown Brooklyn's broader business ecosystem is essential to firm growth and recovery.

Regaining worker and consumer confidence: Firms and staff are risk-averse, and require additional guidance from government and business leaders to feel comfortable returning to work and resuming spending.

FIRMS REMAIN OPTIMISTIC DESPITE SETBACKS

The COVID-19 pandemic has posed deep economic challenges for many Brooklyn firms. Most firms report significant financial impacts, with 41% of firms interviewed reporting near-term cash flow challenges, and 63% reporting projected revenue loss.

Firms in the design, media, and consulting sectors are among the hardest hit. Some respondents report revenue losses between 50% and 60% as new contracting stalls and client contracts are put on hold amidst economic uncertainty and budget cuts. Several firms also report reduced ad revenue, as both local businesses and national corporations reduce spending.

Consumer-facing companies report revenue losses resulting from decreased demand. Mobility startup **Dollaride**, a commuter van network based in NYU Tandon's Future Labs, saw an initial 90% decrease in ridership due to the shutdown. Fashion and consumer goods firm **Lafayette 148** saw a 60% drop in sales between April and June 2020.

41%
of firms report near-term cashflow challenges

63%
of firms report projected revenue loss

Among tech-enabled startups, firms remain optimistic about business growth while reducing operating costs to extend funding runway during the crisis. Overall, tech startups reported fewer layoffs and disruptions than firms in non-tech sectors. Per Craig Wilson, Managing Director at NYU Tandon's Data Future Lab, "most of our portfolio companies have been operating well remotely with minimal disruption to day-to-day operations. Their employees are tech-savvy, and many had experience with partially-remote teams prior to the pandemic."

About half of all tech-enabled startups report recruiting and onboarding new staff remotely over the last three months, and approximately 30% report growth with the launch of new products or services since March. Firms in the cybersecurity, cleantech, edtech, and healthcare tech sectors all report growth, with some receiving new venture capital investment and adding staff in the last quarter. Notably, Downtown Brooklyn edtech firm **Edquity**, a Future Labs portfolio company, has onboarded 7 new employees since March and plans to continue to grow.

Some tech-enabled startups, however, report reduced demand, delays in product development, and supply chain shortages. Startups in sectors such as mobility and proptech, as well as those reliant on customers in hardest-hit industries like hotels and restaurants, report significant drop-off in demand. Some of these early-stage firms have begun to shift their business models to meet changing needs, and several, including Gowanus-based mobility startup **Revel**, saw an uptick in users in the last two months. **Dollaride** founder Su Sanni noted that, following a major decrease in ridership from their standard customers, they are exploring starting a delivery service network, leveraging their 500+ drivers as couriers to serve local businesses facing new delivery demand.

44%
of tech-enabled startups report recruiting and onboarding new staff

30%
of tech-enabled startups report growth with new products or services

Consequently, many firms are looking to reduce operating expenses in the near term. Firms report delaying raises and hiring in addition to cutting marketing, advertising, and programming budgets. For example, Downtown Brooklyn-based tech education organization **The Recurse Center** suspended a scholarship program that granted support to underrepresented communities in tech. Many are looking to reduce real estate costs by seeking rent deferrals and terminating short-term coworking contracts.

Venture-backed startups have been advised to extend their runway as much as possible for the next 12-18 months to account for potential 1-3 year delays in the investment cycle. **Sunthetics**, a green chemical manufacturing startup in the Future Labs portfolio, expects delays in completing their funding round this summer, while Downtown Brooklyn fintech firm **Curve** is planning for runway through late 2021. **NeuTigers**, a machine learning startup operating out of Future Labs, suggests that peers should expect to "stay lean for the next two years."

KEEPING JOBS IN BROOKLYN

Despite financial pressure, more than half of respondents have been able to maintain their staff count in the last quarter, and about a quarter of firms are still actively recruiting and hiring. Continued hiring is most common in the tech sector. As Future Labs' Craig Wilson notes, "most of our companies have been fortunate to keep their teams in place, and some are even expanding – those that have had to reduce staff have done so to gain additional runway so they can ensure their survival during an uncertain time." The majority of open positions are for engineers and data scientists, designers, and business development, sales, and customer support roles.

53% of firms maintained staff count

22% are actively hiring and recruiting

However, about of quarter of respondents across all sectors have had to furlough or lay off staff since March. In particular, firms in industries such as architecture and design, media, consulting, fashion, and a few tech-enabled startups, report layoffs. Firms report that these cuts affect up to 20% of staff, but some note that it may be possible to restore jobs if business improves in the coming months.

Federal financial assistance has played a role in job retention for Brooklyn firms. Approximately two-thirds of firms surveyed applied for the US Small Business Administration's Paycheck Protection Program (PPP) loan. Of the firms that applied, the majority were approved for assistance, mostly during the second round.

66% of respondents applied for PPP

Of these firms, **81%** were approved

Despite this, respondents report significant challenges with public financial assistance programs. Firms struggled with program guidelines and documentation requirements, as well as insufficient funding and poor communication from traditional banks. Additionally, many firms that received PPP loans expressed concern about the limited benefit period, and an inability to retain current workforce if disruptions continue.

Notably, most tech-enabled startups surveyed did not apply for PPP support. Some report that the program's focus on payroll protection did not meet their needs, while others report ineligibility due to their employment and payroll structure. Several tech firms report that peers in New York City's startup ecosystem who received PPP assistance are returning the funds over concerns about eligibility and appropriate use of the program by venture-backed companies.

REIMAGINING THE WORKPLACE

Downtown Brooklyn firms – both in and outside of the tech sector – have been largely successful at adapting to remote work, with minimal impact on productivity. About a third of all respondents report continuing to recruit and onboard new staff members during lockdown. Many firms have offered increased flexibility to accommodate a variety of work hours, as employees care for young children or other family members. Firms that require manufacturing, lab and field work report disruptions and difficulty conducting certain aspects of their business remotely, including those in architecture, film and television production, and proptech.

31% of firms report recruiting and onboarding new staff

Despite the successful transition to remote work, nearly all firms express interest in resuming some level of in-person operations. Respondents report that child and family care, internet connectivity, and mental health are among the acute challenges employees face while working from home.

"We asked our employees and found that most want some level of in-office presence each week. Meanwhile, we continue to evaluate our future needs, taking into account the safety and comfort of our team and changes to office norms that may result from the pandemic."

Patrick Ainslie, Director of People
CARMERA, Inc.

A majority of firms report the desire to connect with coworkers in a physical office space, and recognize the importance of in-person work for ideation, collaboration, and team-building morale.

Many firms note, however, that face-to-face connection may not be essential five days per week, and have begun to reconsider their approach to the office concept. Some, including fintech firm **Curve**, are exploring a "hybrid model" that would incorporate both remote and in-person work, with periodic use of office space for meetings and team-building purposes.

> **"We're committed to building our business in Brooklyn - we think a hybrid office model could work well, with time to connect in the office to share and develop ideas."**
>
> Amanda Orson, VP / Head of North America
> Curve

Economic uncertainty – coupled with the general ease of remote work – has also paused executive decision-making on broader real estate needs and office expansion or retraction. One firm with fewer than 5 employees plans to temporarily reduce space by terminating their coworking agreement. Only one firm reports not permanently returning to a physical office in the foreseeable future.

Furthermore, some growing firms with planned office expansions prior to the pandemic are no longer doing so, due to staff health concerns, uncertainty on reopening regulations, and the possibility of lower market rents in the coming months. As fintech firm **Propel's** founder Jimmy Chen notes, "we love our office on Bridge Street, but we now expect that more employees will be working remotely, and expect our current space to serve our team for a long time, even as we aggressively grow headcount."

BUSINESSES ARE COMMITTED TO BROOKLYN

The majority of respondents are considering multi-pronged strategies to address health and safety concerns as they prepare to return to the workplace. At the time of the survey, most firms were still in the process of developing return-to-office frameworks, but many report planning to implement phased return dates, staggered work schedules, and changes to office design to accommodate physical distancing. Additionally, nearly all respondents plan to expand their remote work policies.

As of mid-July, the City is in New York Forward Phase 4, which limits office building occupancy to no more than 50% and requires tenants to develop individual safety and operations plans. Most non-essential firms are still approaching reopening conservatively. Some are bringing a limited number of workers back to the office this summer, while looking to Labor Day or later for a more comprehensive return pending updated State regulations. Family and childcare needs are driving decision-making for many firms, and uncertainty about school reopening is a major challenge for working families.

84% **of firms plan to expand remote work policies**

Staff comfort with workplace health and safety is top of mind for most employers, and several firms report extending remote work policies until late fall to accommodate staff who have temporarily relocated during the spring and summer months. A few smaller firms also report difficulty purchasing bulk cleaning supplies and personal protective equipment, which could delay their ability to safely and comfortably reopen.

Documentary film production firm **Ark Media's** cofounder Rachel Dretzin shared that "because so much work can be done remotely, we're able to stagger our return until all staff feels ready. We need to be able to purchase critical cleaning supplies, feel comfortable with deliveries, and ensure that staff members can safely travel to and from work."

Lack of confidence in public transit also plays a major role in guiding employer decisions on office and real estate needs. Several firms plan to allow employees with long commutes or multiple transfers to work remotely for an extended period of time. Many firms also anticipate that staff will bike or walk to work where possible, and thus want infrastructure such as protected bike lanes to support this. Others note that staff members may choose to drive and express concerns about parking availability and pricing.

Overall, DBP's study found that local businesses remain committed to a Brooklyn office presence, and no respondents indicate plans to move out of the district or borough. Firms see their location as critical to client recruitment, talent attraction, and company culture.

As Dumbo software startup **HappyFunCorp's** co-founder Will Schenk notes, "we're going to keep a presence in Brooklyn - being based here is key for attracting and meeting with prospective clients, and our employees want to be here."

> **"Brooklyn is where we started - it's an integral part of our culture and an inspirational place to work. I can't imagine not running our business in the neighborhood."**
>
> Alex Levin, Founding Partner
> L+R

There is significant potential for increased demand in the Downtown Brooklyn office market in the coming months as Brooklyn's labor force seeks shorter commutes. Downtown Brooklyn firms and Future Labs directors all noted their geographic advantage, given that many founders and staff live within walking or biking distance to the office.

Additionally, more employees may move to Brooklyn to be closer to their offices, bolstering the live-work dynamic in the district. For example, **Curve** reports that one staff member plans to relocate to Brooklyn from Manhattan and another staff member will renew a Brooklyn lease when the firm commits to new space in the borough and resumes in-person operations in the coming months.

Finally, firms like Downtown Brooklyn-based **StoryCorps** place high value on access to neighborhood amenities, from food and beverage options to cultural events and entertainment venues, and are eager for ways to support local businesses.

> **"The whole neighborhood environment is so important to us, and our staff is eager to return to favorite coffee shops and lunch spots. We want to know what we can do to ensure they're still open when we go back to our office."**
>
> Lisa Stein, Chief Financial & Administrative Officer
> StoryCorps

As tenants return to offices, the recovery and long-term health of Downtown Brooklyn's broader business ecosystem – particularly restaurants and retailers – will be essential to talent attraction and future firm growth.

SURVEY RESPONDENTS

(*indicates full video / phone interview)

100 Chickens Productions
Ark Media*
CARMERA, Inc.*
Curve*
Dollaride
Edquity
Farmshelf
HappyFunCorp*
JustFix.nyc*
L+R*
Lafayette 148
Livepin
Makerbot*
Makelab
NeuTigers, Inc.
NPower*
Owal
Propel*
Qri, Inc.
Revel*
Schneps Media*
SO-IL*
Stageberg Architecture PLLC
StoryCorps*
Sunthetics
The Recurse Center*
think! Architecture*
UltraVirgo
VentureSpace
WITNESS*
Work & Co
NYU Tandon Data Future Lab*
NYU Tandon Urban Future Lab*
Two firms requesting anonymity*

RECOMMENDATIONS

Downtown Brooklyn firms have been significantly impacted by the COVID-19 crisis and require support to restore operations and retain jobs. The following recommendations respond directly to key needs voiced by business leaders, and include immediate programmatic and financial assistance needed through Fall 2020, as well as near-term policy and infrastructure initiatives that require partnership between New York City and State policymakers, the private sector, and nonprofit organizations.

IMMEDIATE ACTIONS TO SUPPORT BROOKLYN BUSINESSES (3-6 months)

Provide clear guidance for safe reopening and return to the office: As NYC enters various phases of reopening, businesses need clear information on the latest regulations and recommendations to ensure employee health and safety. Drawing on regional and global best practices, City and State agencies must provide commercial property owners, managers, and tenants with concise and accessible guidance on building occupancy, health screening, and reporting requirements.

Increase financing options to retain jobs and support businesses through full recovery: Access to capital is the biggest need for businesses, one that may grow as the impact and duration of the crisis continue. Both public and private programs offered to date have not been sufficient. NYC Department of Small Business Services (SBS) loan and grant programs ran out of funds almost immediately, while those from private and philanthropic sources have also fallen short of meeting needs. Despite the PPP Flexibility Act extension, many firms stressed concerns regarding the year-end expiration of PPP funds and their ability to make payroll past the benefit period. Additional support will be needed over the next 12 months given the likelihood of a slow recovery as the health crisis grows nationwide. City and State policymakers must advocate for extending the federal SBA and PPP benefit period through Spring 2021, in addition to exploring other low-interest loans and creative financing options to keep jobs in place and curb unemployment.

Support the recovery of neighborhood-serving retail: Local restaurants, shops, and services are essential to quality of life for New Yorkers, and are key to many firms' ability to recruit and retain talent. However, survival of the small businesses that make New York unique is in jeopardy. Both the public and private sectors need to provide low- or no-interest loans that target independent food and beverage, dry goods, and service businesses such as personal care and wellness that face unique operational and financial hurdles caused by the pandemic. Furthermore, we urge the City and State to make the Open Restaurants program permanent and reduce regulatory burden for local businesses through streamlined permit applications and self-certification, permanent cancellation of sidewalk permitting fees, and automatic liquor license renewal. Finally, we encourage policymakers to incentivize local spending through programs such as tax-free shopping days.

Transform our streets and public spaces to better serve people: The COVID-19 pandemic has exacerbated the need for quality public space, especially in our business centers. As firms return to their offices, Downtown Brooklyn workers would greatly benefit from greener, safer, more walkable, and engaging streets and sidewalks. The City should expand the shared streets network to further pedestrianize the core of Downtown Brooklyn from Willoughby to Livingston Streets along the Fulton Mall, and build on the success of Open Restaurants by replacing placard parking spots with space to accommodate people and retail. Additionally, we urge the City to fulfill its 2004 commitment to build a permanent public space at Willoughby Square Park, in the heart of Brooklyn's most active business center.

Evaluate real estate needs and commercial office market in early 2021: Firms are committed to keeping Brooklyn offices and while demand from Manhattan-based employers may continue to grow, the commercial office market is still shifting with significant changes in the type, size, price, and demand of space. We urge the Mayor to create an advisory council of large and small landlords, tenants, and lenders that represent the city's commercial real estate market to assess the acute needs and challenges faced by each group, and plan for the future of Downtown Brooklyn and other business district with initiatives such as lease workout assistance, repurposing existing space, and changes to tax code and land use policies.

NEAR-TERM RECOMMENDATIONS (12-18 months)

Invest in infrastructure for safer commutes: Many businesses expressed a need for improved transportation infrastructure to feel safe. New York City must embrace this opportunity to reclaim public space for pedestrians and cyclists, and set a model for a safer public realm through both low-cost tactical and permanent capital projects. In addition to the incremental improvements announced to date, we urge New York City Department of Transportation (NYCDOT) to develop a new Brooklyn mobility plan with a comprehensive protected bike network that connects key job centers like Downtown Brooklyn, Brooklyn Navy Yard, and Sunset Park with residential neighborhoods borough-wide.

Expand transit and mobility options: City leadership should work with Lyft to increase the capacity and reliability of the Citi Bike system and put more e-bikes into service, and consider partnerships with other mobility providers for additional modes such as electric scooters. Additionally, permanently adopting the MTA's Atlantic Ticket pilot program – which allows riders to travel from Long Island Rail Road (LIRR) stations in Queens to Atlantic Terminal in Downtown Brooklyn for a discounted fare – would strengthen connectivity between the outer boroughs. The City should also commit to investing in light rail over the next decade, to increase access to job centers such as Downtown Brooklyn from neighborhoods underserved by the existing public transit system.

Reestablish supply and distribution chains: Supply chain disruptions have impacted business operations and slowed production. Economic development leaders should help Downtown Brooklyn's tech startups and advanced manufacturing firms resume work by ensuring access to inputs and materials needed for product prototyping, manufacturing, and distribution.

Broaden key incentives to support growth: As small businesses begin to recover, the Empire State Development Corporation (ESD) should expand the existing START-UP NY program to include additional Downtown Brooklyn locations, in order to allow a greater number of growing firms to benefit from tax-based incentives and innovative academic partnerships with local higher education institutions.

Restore market confidence in Brooklyn and New York City: As of July, New York City, initially the epicenter of the pandemic, is now one of the safest urban centers in the nation. However, the perception from leading industry firms and their clients may not reflect this new reality. The Mayor's Office and executives of NYC's biggest employers in finance, advertising, media, and tech must join together and make a public commitment to promoting New York City and investing in its recovery. We encourage the City – with business partnership organizations and other NYC founders and industry leaders – to develop a new campaign similar to I Love New York that reinstills pride and strengthens the city's brand as the resilient, global capital of business and culture.

Methodology

In May 2020, DBP surveyed and interviewed 30+ Brooklyn firms ranging from early-stage startups to mature companies with hundreds of employees. DBP also spoke with directors from the New York University (NYU) Tandon Future Labs incubators, whose portfolio includes 50+ startups. 97% of respondents have an office presence in Downtown Brooklyn or Dumbo. 60% have 10+ employees, and approximately half are tech-enabled startups. Respondents represent a variety of traditional and emerging industries, such as architecture and design, healthcare, fintech, film and TV production, advanced manufacturing, digital product design, media and advertising, and software development.

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The Downtown Brooklyn Partnership is a not-for-profit local development corporation that serves as the primary champion for Downtown Brooklyn as a world-class business, cultural, educational, residential, and retail destination.

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