

Long Island Office, Q1 2020

Dwindling availability rate leads to positive absorption

 Availability Rate **10.6%**

 Average Asking Rent **\$28.19 PSF**

 Net Absorption **310,536 SF**

 Leasing Activity **489,438 SF**

*Arrows indicate change from previous quarter.

- Year-over-year, the availability rate decreased 50 basis points (bps) to 10.6%.
- Quarterly leasing activity totaled 489,000 sq. ft. during Q1 2020, a 19% increase from the previous quarter and 3% above the five-year quarterly average for Long Island.
- Net absorption totaled positive 311,000 sq. ft. in Q1 2020, as leasing activity outpaced new space additions to the market.
- Overall average asking rents continued their gradual increase, growing 3% since Q1 2019 and nearly 10% since Q1 2016.
- Class A availability decreased 150 bps year-over-year to 10.1%, with an average asking rent of \$32.22 per sq. ft.

MARKET OVERVIEW

Despite the national economy being clouded by uncertainty in the wake of the COVID-19 pandemic, the Long Island office market ended the quarter on a positive note. In the past three months, availability rates have declined and average asking rental rates have increased. Leasing activity has remained steady, with the market posting 489,000 sq. ft. in the first quarter, a 19% increase from the 412,000 sq. ft. leased in Q4 2019.

Due to steady leasing activity and no significant new blocks coming to market, Long Island experienced positive net absorption of 311,000 sq. ft. in Q1 2020. As a result, the overall availability rate declined to 10.6%, while overall average asking rents increased to \$28.19 per sq. ft.

Figure 1: Significant Transactions | Q1 2020

Size (Sq. Ft.)	Tenant	Address	Transaction Type
77,351	Travelers Insurance	2 Corporate Center Drive, Melville	New Lease/Downsize
45,000	Integra Managed Care	1985 Marcus Avenue, Lake Success	New Lease
25,000	GEICO	2 Huntington Quadrangle, Melville	New Lease
13,368	Valley National Bank	1 Jericho Plaza, Jericho	Renewal/Downsize

Source: CBRE Research, Q1 2020.

ECONOMIC CONDITIONS

The COVID-19 pandemic has forced New York and several other state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S.—mirroring China’s experience—the U.S. government’s fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

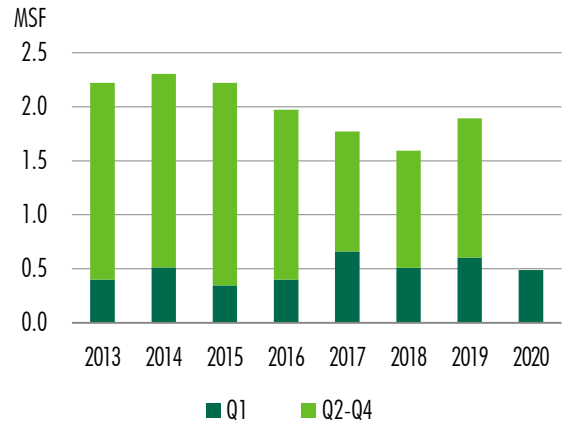
LEASING ACTIVITY

Office market fundamentals revealed marked improvement in the first quarter, with leasing activity up 19% quarter-over-quarter to 489,000 sq. ft. Leasing activity in Nassau and Suffolk Counties was nearly evenly split with 254,000 sq. ft. and 235,000 sq. ft., respectively.

One leasing transaction exceeded 50,000 sq. ft. in the first quarter of 2020, a 77,000-sq.-ft. lease by Travelers Insurance at 2 Corporate Center Drive in Melville. Travelers will be relocating and downsizing from approximately 120,000 sq. ft. at 3 Huntington Quadrangle, also in Melville.

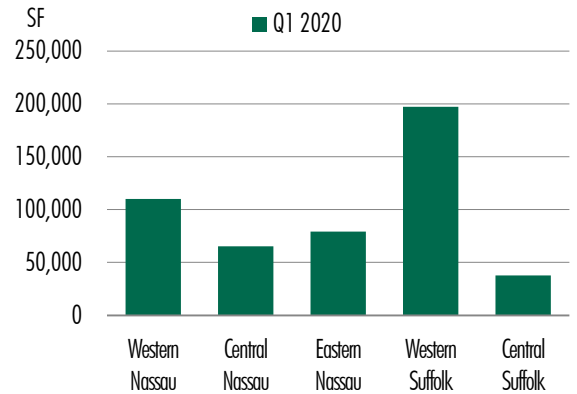
Of the five submarkets, Western Suffolk reported the most leasing activity with 197,000 sq. ft., primarily due to the Travelers transaction. Also contributing to Western Suffolk’s total, GEICO leased 25,000 sq. ft. at 2 Huntington Quadrangle, expanding within the building. Western Nassau followed with 110,000 sq. ft. of leasing activity,

Figure 2: Leasing Activity | Historical



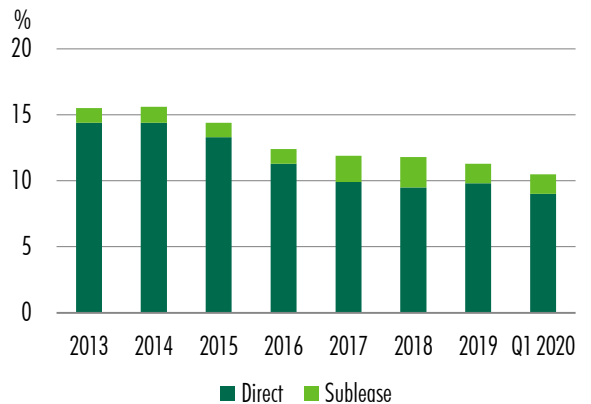
Source: CBRE Research, Q1 2020.

Figure 3: Leasing Activity | By Submarket



Source: CBRE Research, Q1 2020.

Figure 4: Availability Rate | Historical



Source: CBRE Research, Q1 2020.

where Integra Managed Care leased 45,000 sq. ft. at 1985 Marcus Avenue in Lake Success.

NET ABSORPTION AND AVAILABILITY

The leasing of several mid-to-large block availabilities in the first quarter drove quarterly net absorption to positive 311,000 sq. ft. - the largest positive quarterly absorption since Q1 2017. No blocks of space over 25,000 sq. ft. were added to the market in Q1 2020.

The lack of large-scale space additions coupled with steady leasing activity drove Long Island’s availability rate down 6% from Q4 2019 to 10.6%. The availability rate has remained steady over the past year, fluctuating between 10.6% and 11.3% since Q1 2019. On Long Island, 10% is considered the benchmark for market equilibrium, where supply and demand meet, and is the sign of a healthy market.

With a larger inventory and tighter office market, Nassau County reported an availability rate of 9.5% at the end of the first quarter, down from 10.3% in Q1 2019. Suffolk County, which typically offers the majority of larger blocks of available space, saw its availability rate remain relatively unchanged at 12.3% compared 12.4% a year ago. Quarter-over-quarter availability in the Class A segment declined 60 bps to 10.1% while Class B dropped 80 bps to 11.0%.

Overall, four of the five submarkets experienced positive quarterly absorption and a year-over-year decline in availability rates.

AVERAGE ASKING RENT

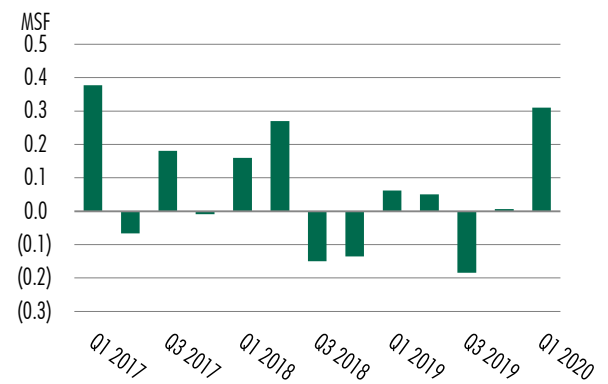
Predictably, as availability has tightened, average asking rents increased 3% year-over-year, ending Q1 2020 at \$28.16 per sq. ft., surpassing \$28.00 per sq. ft. for the first time since Q2 2008.

Both Nassau and Suffolk Counties reported increases in average asking rents year-over-year

with Nassau’s registering \$30.36 per sq. ft., while Suffolk ended the first quarter at \$25.80 per sq. ft. Class A average asking rents remained stable in Q1 2020 at \$32.22 sq. ft., while Class B increased 5% to \$25.56 per sq. ft. over the year.

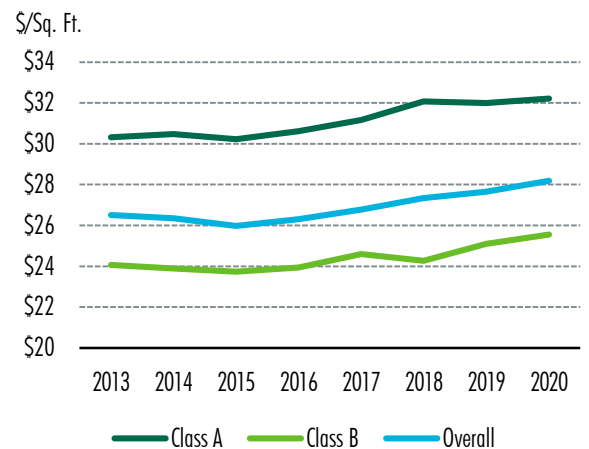
The Western Nassau submarket continued to achieve the highest average asking rental rate of \$34.23 per sq. ft., which is the highest historical rate recorded for the submarket to date. Conversely, the Central Suffolk submarket has the lowest average asking rent at \$22.52 per sq. ft. Despite relatively low availability in Central Suffolk, slow deal velocity continues to limit rent growth in that market.

Figure 5: Net Absorption | Quarterly



Source: CBRE Research, Q1 2020.

Figure 6: Historical Average Asking Rents



Source: CBRE Research, Q1 2020.

Figure 7: Historical Availability Rates vs Average Asking Rents

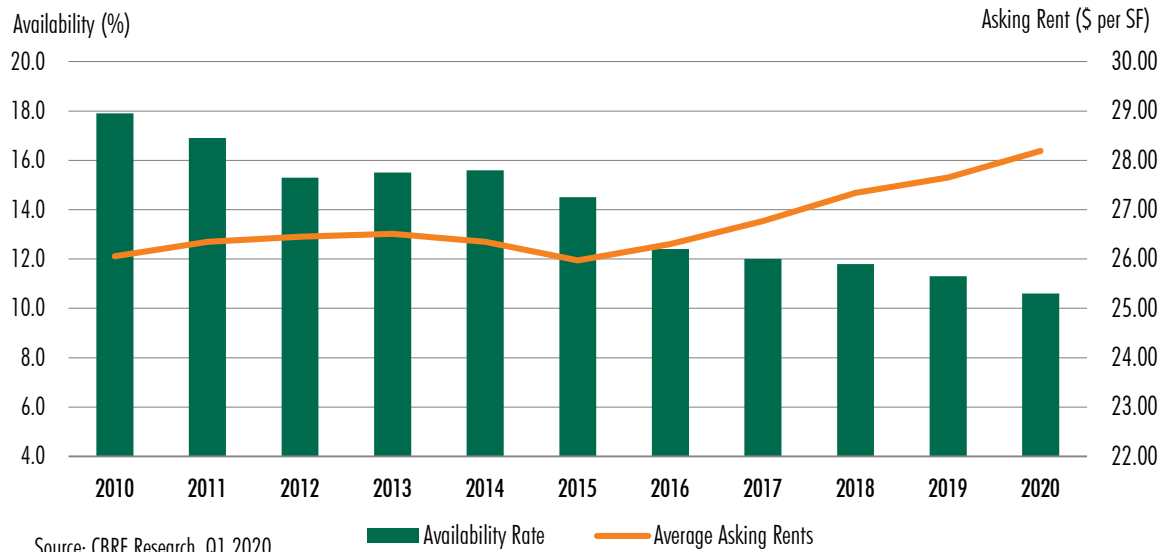
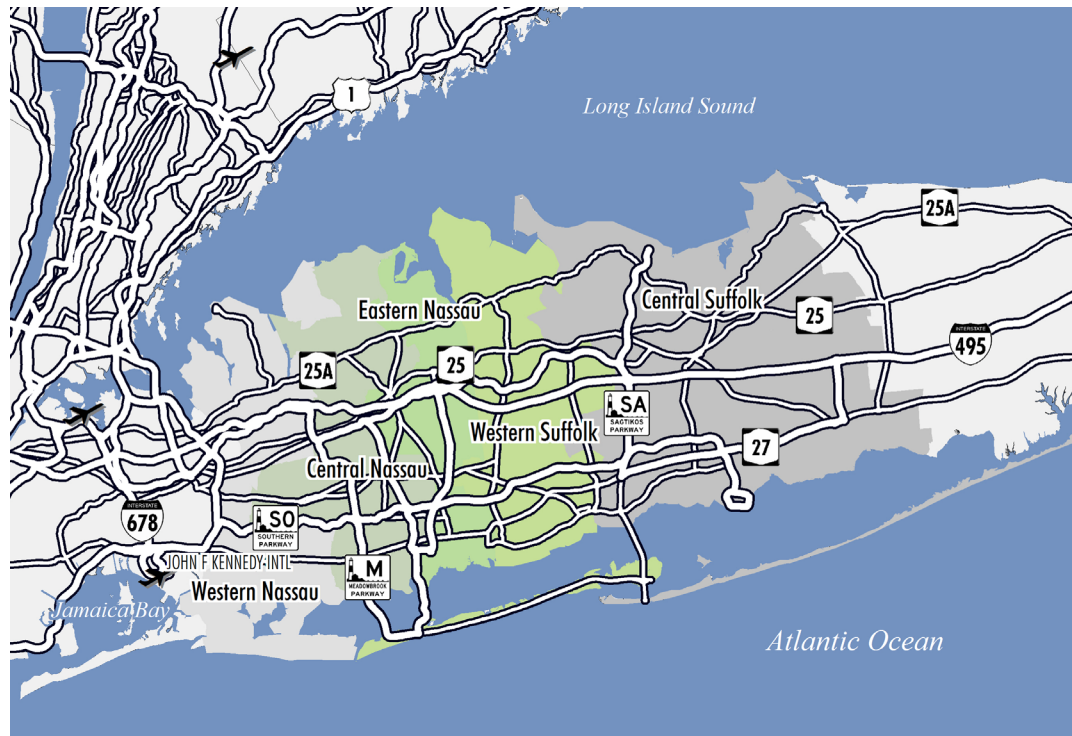


Figure 8: Q1 2020 Market Statistics

Submarket	Market Rentable Area (SF)	Available (SF)	Avail. Rate (%)	Vacancy Rate (%)	Net Absorption (SF)	Leasing Activity (SF)	Gross Avg. Asking Rent (\$/SF/Yr)
Western Nassau	7,727,532	573,944	7.4	7.0	79,745	110,129	34.23
Central Nassau	10,259,647	1,226,585	12.0	10.9	7,359	65,130	28.99
Eastern Nassau	6,944,393	555,906	8.0	8.0	73,133	79,112	29.83
Nassau Totals	24,931,572	2,356,435	9.5	8.9	160,237	254,371	30.36
Western Suffolk	9,475,578	1,026,894	10.8	8.7	156,408	197,309	28.12
Central Suffolk	6,990,571	999,464	14.3	12.5	(6,109)	37,758	22.52
Suffolk Totals	16,466,149	2,026,358	12.3	10.3	150,299	235,067	25.80
Long Island Class A	19,315,593	1,955,719	10.1	9.6	117,917	183,454	32.22
Long Island Class B	22,082,128	2,427,074	11.0	9.4	192,619	305,984	25.56
Long Island Totals	41,397,721	4,382,793	10.6	9.5	310,536	489,438	28.19

Source: CBRE Research, Q1 2020.



DEFINITIONS

Availability — Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction.

Asking Rent — Weighted average asking rent.

Leasing Activity — Total amount of sq. ft. leased within a specified period of time, including pre-leasing and excluding renewals.

Leasing Velocity — Total amount of sq. ft. leased within a specified period of time, including pre-leasing and renewals.

Net Absorption — The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

Vacancy — Unoccupied space available for lease.

SURVEY CRITERIA

CBRE’s market report analyzes fully modernized office buildings that total 20,000+ sq. ft. in Long Island, including owner-occupied buildings (except those owned and occupied by a government or government agency). New construction must be available for tenant build-out within 12 months. CBRE assembles all information through telephone canvassing and listings received from owners, tenants and members of the commercial real estate brokerage community.

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