

CBRE Releases Q3 2017 Office Market Data for Long Island

Lack of Large Blocks Contributes to Leasing Slowdown

Melville, NY – October 18, 2017 – Office market fundamentals were positive this quarter, and large blocks of space remained in demand, according to a third quarter 2017 office market report released by CBRE. Although there are few large Class A spaces available in Nassau and Suffolk County, landlords are not considering speculative construction to meet demand due to high construction costs and stable rental rates. Large blocks of contiguous Class A space over 50,000 sq. ft. are scarce, and those that are available are in Nassau County. The largest availability added to the market in Q3 2017 was another sublease resulting from Altice USA's consolidation and relocation from Bethpage to Long Island City, Queens, 50,599 sq. ft. at 1 Media Crossways in Woodbury, a Class B property.

Combined with the 394,976-sq. ft. Altice USA listed for sublease in Q2 2017 this brings the total to 445,575 sq. ft. causing sublet availability to jump by 48% to 884,064 sq. ft. Without this space the sublease availability rate would be 1.1% compared to the current 2.1%.

Long Island's overall availability rate registered 12.0%, 1.4 percentage points below Q3 2016 as available space was reduced across all property classes. The tightening of the Class A segment, from 10.9% a year ago to 9.8% today, has made tenants consider broader geographic areas than they previously would have. In total, available space fell by 9% since Q3 2016 from 5.5 million sq. ft. to 5.0 million sq. ft. Direct space decreased by 16% to 4.1 million sq. ft.

Q3 2017 confirmed that Long Island continues to be a market of smaller deals. The office market was fueled mainly by transaction sizes of 10,000 sq. ft. or less, which accounted for 94% of the office leases transacted this quarter. However, there are several large tenants in the market with deals expected to close in the coming months.

Third quarter leasing activity totaling 366,827 sq. ft., 31% below the five-year quarterly average. However, 2017 is a strong year with year-to-date leasing activity totaled over 1.41 million sq. ft. compared to last year's figure of 1.25 sq. ft. Despite slower than normal leasing activity last quarter, space was steadily absorbed and no new larger blocks came to the market, resulting in positive quarterly absorption of 180,700 sq. ft. compared to last quarter's negative 66,721 sq. ft. The Central Nassau submarket recorded the highest volume of absorption totaling 123,510 sq. ft. and also reported the greatest amount of leasing activity among the submarkets of 143,514 sq. ft. At 990 Stewart Avenue in Garden City, Nationwide Insurance leased 18,600 sq. ft., in a relocation and consolidation from two locations-Mineola and Garden City.

SALES ACTIVITY

The pace of office sale transaction volume in 2017

has slowed. One sale took place involving 520 Broadhollow Road and 1660 Walt Whitman Road in Melville, purchased by Abraham Schwartz, a Brooklyn-based real estate investor, for \$37,000,000 or \$222 per-sq.-ft. for these single-story Class B properties.

EMPLOYMENT

The labor market remains tight, with a 4.4% unemployment rate in August 2017. Industries reporting prevalent job growth included education and health services up 6,800 jobs, leisure and hospitality gained 3,800 jobs and the government sector added 1,000 jobs over the year.

AVAILABILITY

Long Island ended Q3 2017 with an availability rate of 12.0%, down from 12.5% the previous quarter and 13.4% from Q3 2016. Availability within Class A office space continued its downward trend, decreasing to 9.8%, from 10.9% in Q3 2016. Class B space also tightened from 15.5% in Q3 2016 to 14.0% in Q3 2017. Year-over-year, availability rates decreased in all submarkets except Eastern Nassau.

RENTAL RATES

Year-over-year, Long Island's overall average asking rents increased from \$26.28 to \$26.83 per sq. ft. Class A average asking rates rose from \$30.62 to \$31.07 per sq. ft. year-over-year, while Class B increased from \$23.74 to \$24.47 per sq. ft. over the same time period. The shortage of Class A space has driven pricing up. The average asking rent reached over \$31.00 per sq. ft. for the first time since 2009 and landlords began to tighten concessions in light of the lack of inventory. In addition, average asking rents rose across all five submarkets. The Western Nassau County submarket continued to hold the lowest vacancy rate and the highest average asking rent of \$31.58 per sq. ft. Healthcare remains the primary driver of demand in the submarket.

LEASING ACTIVITY

Leasing for the quarter totaled 366,827 sq. ft. compared to 399,495 sq. ft. in Q3 2016. The majority of the leasing activity during the quarter occurred in Class A office properties. This segment posted 241,362 sq. ft. in total leasing compared to 125,465 sq. ft. of leasing in Class B properties. Of the five submarkets, Central Nassau reported the most leasing activity with 143,514 sq. ft. followed by Western Suffolk with 86,147 sq. ft., the two most significant submarkets in each market, not surprisingly.