

MARKETBEAT

Long Island

Office Q2 2019



LONG ISLAND OFFICE

Economic Indicators

	Q2 18	Q2 19*	12-Month Forecast
Long Island Employment	1.349M	1.354M	▲
Long Island Unemployment Rate	3.8%	3.4%	▼
U.S. Unemployment Rate	3.9%	3.6%	▼

*Q2 2019 data based on the latest data available

Source: BLS, Moody's Analytics, Cushman & Wakefield Research

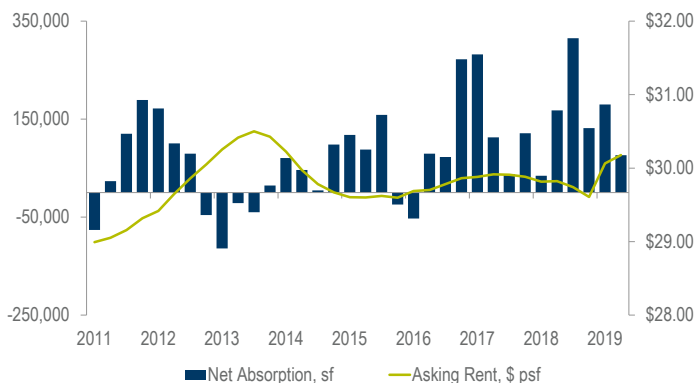
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	11.7%	10.5%	▲
YTD Net Absorption (sf)	193k	-28k	▲
Under Construction (sf)	0	48k	▲
Average Asking Rent* (psf)	\$29.96	\$30.41	▲

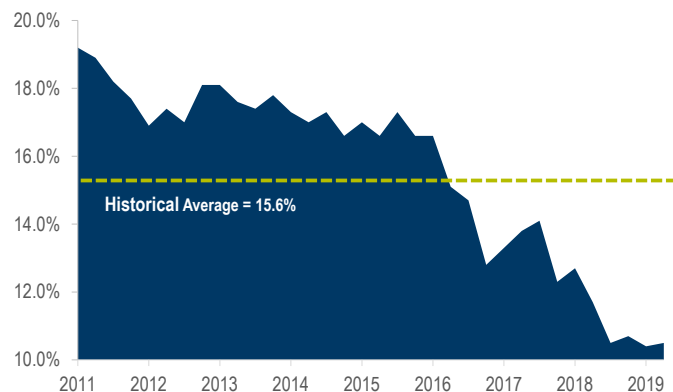
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Long Island's labor market posted negative job growth, slightly declining from the prior quarter to 1.35 million jobs. Despite the recent 3,700 jobs lost, overall employment improved since one year ago, up by 4,300 jobs. Private employment followed a similar trend, diminishing by 4,885 jobs from the previous quarter, yet posted annual gains of 4,361. Most employment sectors recorded quarterly losses, particularly office-using employment—the sector shed 2,491 jobs, mainly due to the reduction of 1,743 professional and business service jobs. The education and healthcare sector continued its strong performance, adding 3,559 jobs from the prior quarter. Overall employment losses didn't prevent the unemployment rate from shrinking as it edged down 60 basis points (bps) this quarter to 3.4%.

Market Overview

The Long Island office market remained relatively steady as it performed moderately throughout the second quarter. The recorded overall vacancy rate edged up since last quarter by 10 bps to 10.5%. Nassau County's vacancy fell 20 bps and closed out the quarter at 9.9%. While direct vacancies throughout the county grew by 114,088 square feet (sf)—the majority within Eastern Nassau County—reductions in available sublease space in the same submarket facilitated the decline. In contrast, Suffolk County vacancy increased, largely due to several blocks of space greater than 15,000 sf coming to market in the Central Suffolk submarket. This pushed the submarket's vacancy rate 200 bps higher to 13.2%. Regardless, the net effect was predominantly unbothered from the prior quarter.

Modest leasing totals led to a slight retraction in the market. Absorption totals finished up the second quarter posting 65,923 sf of occupancy losses. Class A product in four of the five submarkets accounted for 143,032 sf of negative absorption, but 142,590 sf of occupancy gains in Eastern Nassau nearly negated the loss. In addition, Class B direct net absorption recorded occupancy losses across the entire Long Island market. As a result, year-to-date overall absorption fell into the red slightly.

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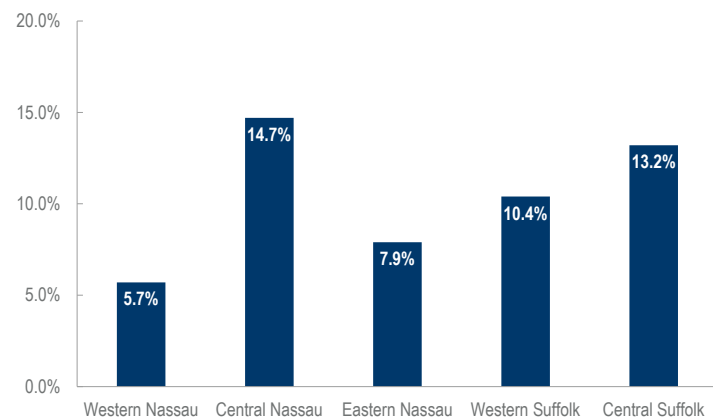
Office Q2 2019



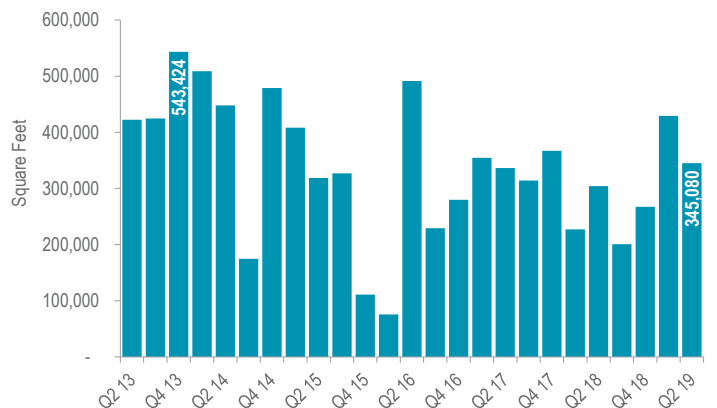
Following strong demand recorded at the beginning of the year, second quarter leasing activity yielded 345,080 sf of newly completed deals—an amount slightly higher than the market's five-year quarterly average of 302,053 sf. While velocity may have decelerated compared to the first quarter, the year-to-date total of 774,290 sf leased exceeded what was recorded one year ago by 45.7%. Central Nassau County documented the highest second quarter leasing totals on Long Island, accounting for 33.5% of all new deals signed. The abundant total was fueled by the second-largest lease of the quarter, as German airline company, Deutsche Lufthansa, executed a lease at 1 RXR Plaza in Uniondale. In Melville, Broadcom, Inc. signed a 45,000-sf lease, comprising the majority of Western Suffolk's demand for the quarter. Subsequently, Western Suffolk deal volume has outperformed all other Long Island submarkets so far this year with more than 333,000 sf leased.

After rising throughout the first quarter, Long Island's overall asking rental rate fell \$0.88 per square foot (psf) to \$30.41. While asking rents remained above the \$30.00-psf mark for the second consecutive quarter, they continued to vacillate near the 10-year historical average of \$29.75 psf. Rental rate reductions were recorded in each submarket throughout Nassau County for the quarter. Eastern Nassau County recorded the largest quarterly decline, as rents fell by \$3.93 to \$31.34 psf. Strong tenant demand in Nassau County led to the absorption of higher-priced Class A availabilities, pushing the average rate downward. Also, the removal of nearly 98,000 sf of high-quality space from the market yielded a \$1.59 psf decline in asking rents to \$31.82. Conversely, Suffolk County rents rose from the previous quarter. The Central Suffolk submarket recorded the most substantial increase, climbing \$2.52 psf to \$26.03 due to the addition of higher-priced direct space. Despite such rental rate improvements, other stipulations in the market held overall rents relatively unchanged quarter-over-quarter.

Overall Vacancy By Submarket



New Leasing Activity



Outlook

- Most market segments remain at healthy levels, but uncertain market and economic conditions may lead to a less-than-desirable outlook for the remainder of the year
- An increased vacancy rate coupled with modestly tempered demand on Long Island and regionally could allow for potential decelerations in the marketplace

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Western Nassau	7,104,563	42,273	359,783	5.7%	-28,445	9,616	36,889	0	\$34.34	\$35.47
Central Nassau	8,880,075	181,085	1,122,950	14.7%	-22,731	-539,072	169,975	0	\$31.51	\$34.75
Eastern Nassau	6,052,726	35,694	440,043	7.9%	86,879	150,151	101,650	0	\$31.34	\$40.55
NASSAU TOTALS	22,037,364	259,052	1,922,776	9.9%	35,703	-379,305	308,514	0	\$31.82	\$35.86
Western Suffolk	8,024,629	93,236	743,658	10.4%	22,915	395,866	333,025	0	\$30.42	\$33.74
Central Suffolk	5,569,306	158,923	574,051	13.2%	-124,541	-44,784	132,751	48,000	\$26.03	\$29.61
SUFFOLK TOTALS	13,593,935	252,159	1,317,709	11.5%	-101,626	351,082	465,776	48,000	\$28.50	\$32.05
LONG ISLAND TOTALS	35,631,299	511,211	3,240,485	10.5%	-65,923	-28,223	774,290	48,000	\$30.41	\$34.31

*Rental rates reflect gross asking \$psf/year

**Does not include renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT	DIRECT AVERAGE ASKING RENT
Class A	17,540,139	379,909	1,476,633	10.6%	-442	-44,865	280,048	0	\$34.31	\$34.38
Class B	18,091,160	131,302	1,763,852	10.5%	-65,481	16,642	494,242	48,000	\$26.79	\$26.86

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
100 Baylis Road, Melville	45,000	Broadcom Inc.	New Lease	Western Suffolk
1 RXR Plaza, Uniondale	33,262	Deutsche Lufthansa	New Lease	Central Nassau
100 Motor Parkway, Hauppauge	30,000	People's United Bank	Renewal	Central Suffolk

Key Sales Transactions Q2 2019

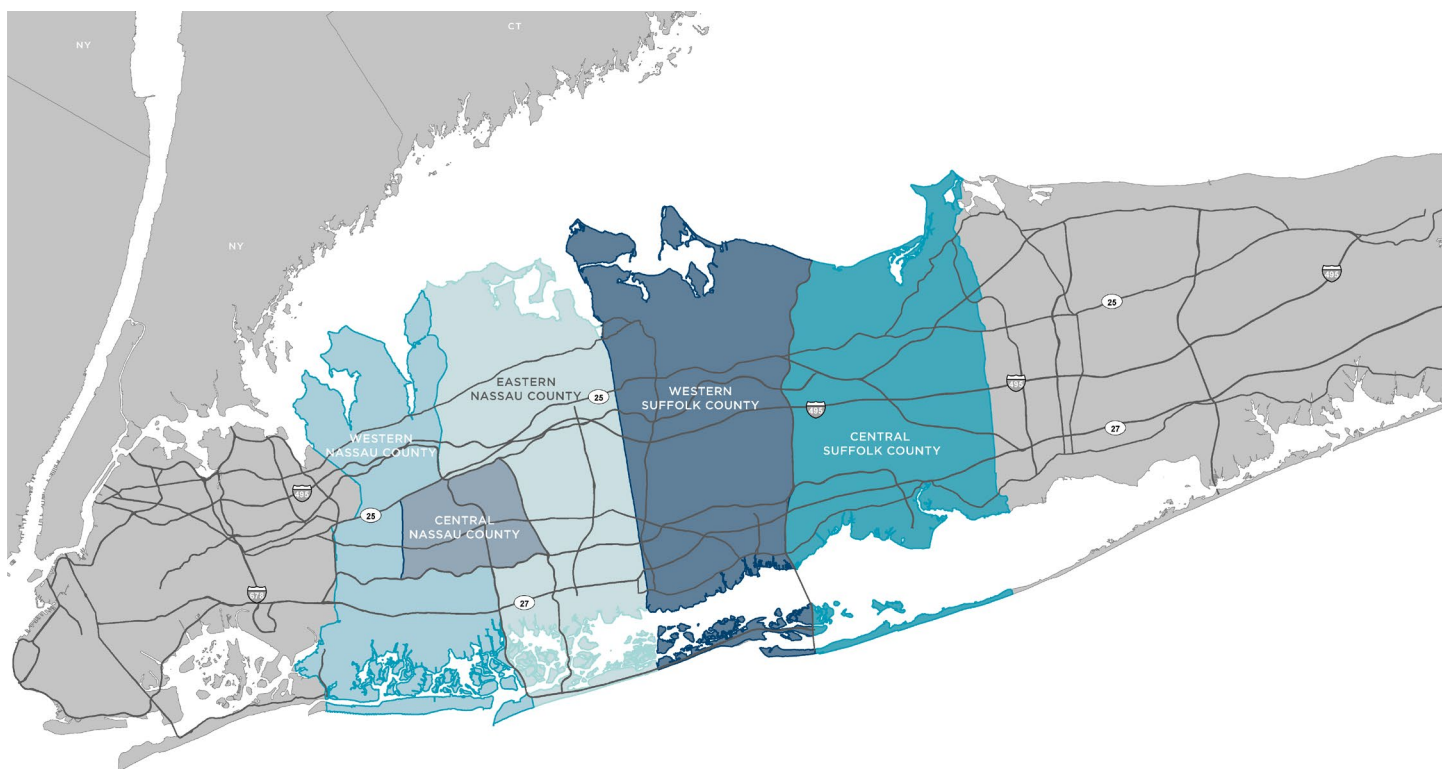
PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
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No significant sales transactions.

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