

Office Market Remains Tight and Benefits from Strong Economy and Employment

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Takeaways | Class A & B

- > The Q4 Long Island Office Market remained balanced despite slight increases in vacancies and declining rental rates. Economic statistics show that current economic growth is strong. Continuing previous momentum, the U.S. economy grew at 3.4 percent in Q3 followed by the strongest GDP of 4.2 in Q2. Employment was at historical highs with an extremely low average unemployment rate of 3.13% in Q4 and the current rate stands at 3.9%. The office market has benefited from this pickup in employment and GDP. In addition, the Federal Reserve raised interest rates for the fourth time this year. The number of increases within a year is rare but it reflects the historical low interest rates which resulted from recession of 2008. The rising interest rates portends strong market fundamentals and continuous growth in the general economy and real estate market.
- > The Long Island office vacancy rate increased slightly to 7.8% in Q4, 20 basis points (BPs) up from Q3, with 7.1% in Nassau County and 8.8% in Suffolk County.
- > The average rental rates for Nassau and Suffolk Counties continued to decline to \$25.91 per square foot (psf) in Q4, a 0.77% decrease quarter-over-quarter and a 3.32% drop year-over-year, which witnessed the first four consecutive quarters of rental rates decline since Q1 2011.
- > Long Island's net absorption for Q4 continued to face some headwinds, with a decrease from negative 121,244 square feet (sf) in Q3, to negative 148,113 sf in Q4.
- > The Q4 leasing activity increased to 424,661 square feet, up 20.28%, but a substantial reduction of 40.13% from a year ago. The total sale transaction volume in Q4 was \$209.4 million resulting in a \$520.3 million for 2018, up 3% from a year ago. The Q4 sales price for Class A & B buildings averaged \$133.00 psf with a cap rate of 8.43%. The cap rates for Class A properties increased by 0.06% to 8.04% with the average sales price of \$177.00 psf, although down 3.8% from the prior quarter.

Market Indicators Relative to prior period	Nassau Q4 2018	Nassau Q1 2019*	Suffolk Q4 2018	Suffolk Q1 2019*
VACANCY	↑	↓	↑	↓
NET ABSORPTION	↑	↑	↓	↑
CONSTRUCTION	↔	↔	↔	↔
RENTAL RATE**	↓	↑	↑	↑

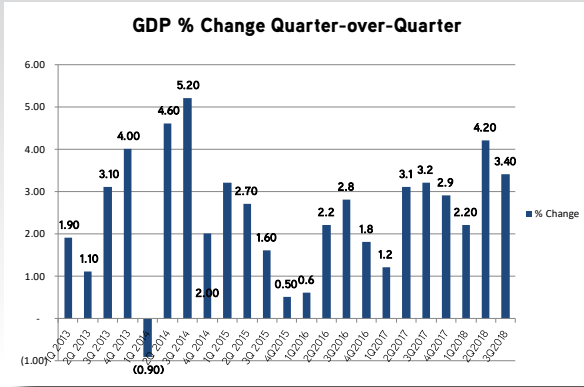
Note:
*Projected
**Rental rates for current quarter are for suburban area.

Summary Statistics Q4 2018 Long Island Office Market	Nassau	Suffolk	Long Island*
Vacancy Rate	7.1%	8.8%	7.8%
Change From Q3 2018 (basis points)	20	40	20
Net Absorption (Thousand Square Feet)	-61.9	-86.2	-148.1
Vacancy Rate (Class A)	6.9%	9.4%	8.0%
Net Absorption (Class A, Thousand Square Feet)	(111.5)	(135.5)	(246.9)

Asking Rents Per Square Foot Per Year	Nassau	Suffolk	Long Island*
Suburban Class A & B	\$28.86	\$23.09	\$25.91
Change From Q3 2018	-0.21%	1.18%	-0.77%
Suburban Class A	\$33.68	\$25.90	\$29.97
Change From Q3 2018	-0.71%	-1.89%	-2.38%

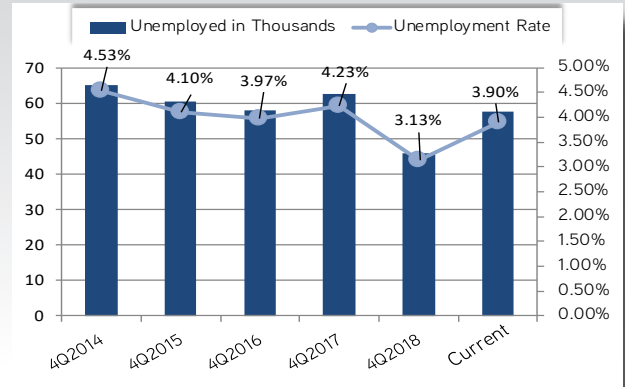
*Long Island Office Market refers to Nassau & Suffolk Counties; 10,000 square feet and above

Gross Domestic Product (GDP): Percentage Change From Preceding Period



Source: Bureau of Economic Analysis--US Department of Commerce

Unemployment Trends - Nassau & Suffolk



Source: NYS Department of Labor

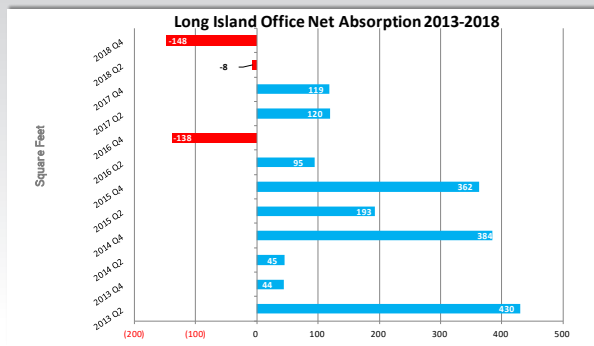
Vacancy

Long Island's limited office supply market continues to keep vacancy rates at historical lows at 7.8% in Q4 despite a slight increase of 0.2% from Q3. The vacancy rates increased 20 BPs to 7.1% in Nassau County and raised 40 BPs to 8.8% in Suffolk County. The Q4 vacancy rates for the Long Island Class A Office buildings increased by 100 BPs to 8.0%, with 6.9% in Nassau County and 9.4% in Suffolk County. The slight increases in vacancies helped lessen the impact of the limited supply affording those seeking space to satisfy their demands. The market is still experiencing a lack of large block quality spaces.

Rental Rate

The Q4 Long Island average asking rental rates for Class A & B buildings decreased by 0.77% to \$25.91 psf and dropped by 3.32% year-over-year. Nassau County declined by 0.21% to \$28.86 psf however Suffolk County increased by 1.18% to \$23.09 psf. The average rental rates for Class A buildings on Long Island also cooled off with a 2.38% decrease to \$29.97 psf in Q4. Nassau County was down to \$33.68 psf, a 0.71% decrease from Q3; likewise, Suffolk County experienced a downward trend, with rents falling by 1.89% to \$25.90 psf. Nonetheless, the Long Island Office leasing market continues to remain comparatively stable with strong market fundamentals.

Long Island Absorption (Square Feet, in Thousands)



Absorption

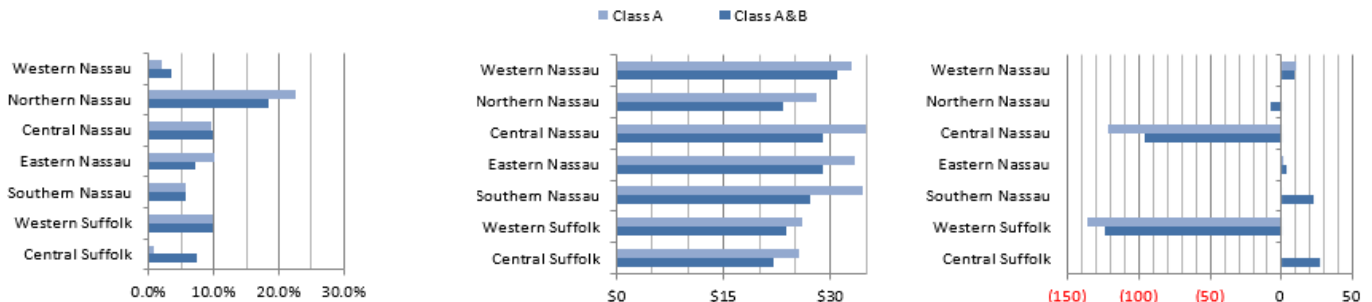
The Q4 net absorption decreased to a negative 148,113 sf continuing the decline of negative 121,244 in Q3 and negative 7,519 sf in Q2 although the year started promising with a net absorption of 141,655 sf. Buildings that leased the most space in the market included RXR Plaza (67,924 sf) and The Omni at 333 Earle Ovington Boulevard in Uniondale (30,000 sf).

UPDATE Vacancy Rates, Asking Rents, & Absorption

VACANCY RATES

AVERAGE ASKING RENTS

NET ABSORPTION (IN THOUSANDS)



Source: CoStar & Colliers International Research

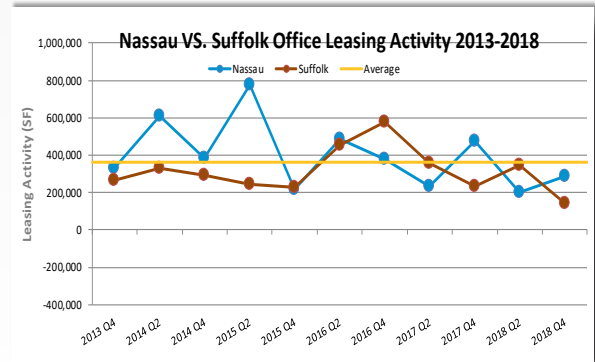
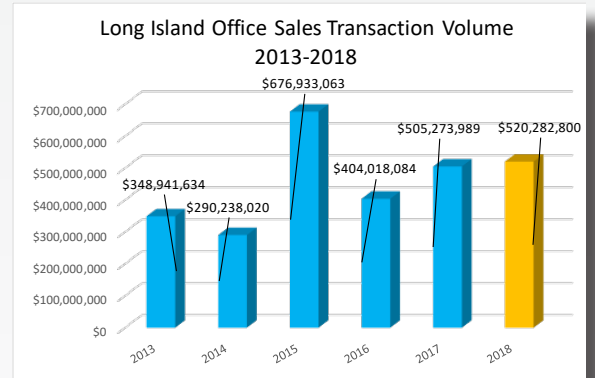
Capital Markets

> The Long Island Capital Markets continued its moderate performance with \$520.4 million in transactions in Q3 2018, up nearly 3% from a year ago and a 28.78% jump from 2016. The Q4 cap rates for Class A & B buildings remained steady with a slight decrease of 0.02% to 8.43% with the average sales price of \$133.00 psf. The cap rates for Class A properties increased by 0.06% to 8.04% with the average sales price of \$177.00 psf. Investors continue to favor the secondary and suburban markets in pursuit of higher yields; this trend will continue in 2019 and into 2020. Sale activity was extremely strong by the end of 2018 with large transactions closed. RXR sold a portfolio of six office buildings with 192,916 square feet in Woodbury for \$37.4 million to Manhattan-based Feil Organization. One of the largest office complexes in Melville known as 3 Huntington Quadrangle totaling 408,917 square feet was sold to a Brooklyn-based real estate investment firm for \$69 million or \$168.74 psf in Q4.

Lease Activity

> The Q4 leasing activity for Class A & B buildings totaled 424,661 sf, up 20.28% quarter-over-quarter but down 40.13% year-over-year and 33.40% below the five-year annual average of 637,657 sf. The main cause for the declining lease activity has been the limited supply and rising demand. This trend will continue with the strong economy and pickup in employment.

Sales Transaction Volume



Source: CoStar, RCA & Colliers International Research

Update Transaction Highlights

OFFICE SALE ACTIVITY



PROPERTY ADDRESS	TOWN	SUBMARKET	SIZE SF	SOLD PRICE
3 Huntington Quadrangle	Melville	Suffolk Western	408,917	\$69,000,000
666 Old Country Road	Garden City	Nassau Central	120,238	\$21,725,000
444 Merrick Road	Lynbrook	Nassau Southern	110,475	\$48,050,000
29 Barstow Road	Great Neck	Nassau Western	42,518	\$8,480,000

OFFICE LEASE ACTIVITY



PROPERTY ADDRESS	TOWN	SUBMARKET	SIZE SF	LEASE TYPE
1055 Stewart Avenue	Bethpage	Nassau Eastern	65,582	Lease
501A West Montauk Highway	West Babylon	Suffolk Western	14,314	Lease
2 Huntington Quadrangle	Melville	Suffolk Western	10,572	Lease
2001 Marcus Avenue	Lake Success	Nassau Western	10,381	Lease

Outlook

- > The Long Island Office Market continued with its moderate performance despite lower absorptions and occupancies at the end of 2018. The rapid growth of GDP and pickup in jobs benefit the office market. The Long Island Office Market remains tight with the lack of large blocks of office space. Medical use will continue to play a key role increasing absorption driven by the well-established healthcare system on Long Island.
- > The Federal Reserve raised interest rates for the fourth time to a range of 2.25 to 2.5 percent in 2018. The rising borrowing rates indicate that the economy will continue to strengthen and the rates are expected to increase in 2019. In general, the Long Island Office Market is expected to continue to remain tight in 2019 however the trend could reverse if the economy starts trending downward.

UPDATE - MARKET STATISTICS SNAPSHOT

LONG ISLAND – CLASS A & B									
COUNTY		VACANCY RATE				AVERAGE ASKING RENTS			
		2018 Q4	2018 Q3	2018 Q2	2018 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Nassau	Total	7.1%	6.9%	6.6%	6.7%	\$28.86	\$28.92	\$28.95	\$28.80
529 Bldgs	Lease	6.0%	6.1%	6.3%	6.4%	\$29.33	\$29.25	\$29.07	\$28.96
	Sublease	1.1%	0.8%	0.3%	0.3%	\$31.76	\$29.69	\$26.22	\$27.00
Suffolk	Total	8.8%	8.4%	8.4%	8.2%	\$23.09	\$22.82	\$22.99	\$23.64
543 Bldgs	Lease	7.7%	7.3%	7.3%	7.2%	\$23.09	\$22.82	\$22.99	\$23.32
	Sublease	1.0%	1.1%	1.1%	1.1%	\$21.04	\$19.49	\$18.86	\$21.39
Long Island	Total	7.8%	7.6%	7.4%	7.4%	\$25.91	\$26.11	\$26.25	\$26.26
1,072 Bldgs	Lease	6.7%	6.7%	6.7%	6.7%	\$26.25	\$26.37	\$26.34	\$26.28
	Sublease	1.1%	0.9%	0.7%	0.6%	\$25.06	\$24.60	\$24.75	\$24.27
Nassau	Total	6.9%	6.1%	5.4%	5.7%	\$33.68	\$33.92	\$33.01	\$33.27
79 Class A Bldgs	Lease	4.8%	4.6%	4.9%	5.3%	\$33.98	\$34.15	\$33.12	\$33.46
	Sublease	2.1%	1.5%	0.4%	0.4%	\$33.29	\$33.29	\$29.27	\$29.38
Suffolk	Total	9.4%	8.1%	8.2%	8.1%	\$25.90	\$26.40	\$26.07	\$26.40
85 Class A Bldgs	Lease	8.0%	6.8%	6.9%	6.8%	\$25.90	\$26.40	\$26.07	\$26.40
	Sublease	1.4%	1.4%	1.3%	1.3%	\$21.98	\$21.16	\$20.00	\$22.28
Long Island	Total	8.0%	7.0%	6.6%	6.7%	\$29.97	\$30.70	\$30.09	\$29.92
164 Class A Bldgs	Lease	6.2%	5.6%	5.8%	6.0%	\$30.43	\$31.07	\$30.23	\$30.12
	Sublease	1.8%	1.4%	0.8%	0.8%	\$25.09	\$24.49	\$23.79	\$24.60

LONG ISLAND – CLASS A & B -Q4 2018							
MARKET	EXISTING INVENTORY (SF) DECEMBER 31, 2018	VACANCY RATE	OVERALL AVERAGE ASKING RENT	RENTAL RATE (CLASS A)	RENTAL RATE (CLASS B)	NET ABSORPTION (SF) CURRENT QUARTER	NET ABSORPTION (SF) YTD
NASSAU							
Western Nassau	9,651,127	3.60%	\$30.95	\$32.96	\$30.24	9,232	6,332
Northern Nassau	466,114	18.30%	\$23.24	\$28.00	\$21.34	(7,724)	(2,817)
Central Nassau	11,289,762	9.80%	\$28.93	\$34.90	\$24.63	(95,397)	(68,408)
Eastern Nassau	10,109,347	7.20%	\$28.86	\$33.36	\$22.30	3,623	49,500
Southern Nassau	2,427,679	5.70%	\$27.04	\$34.50	\$25.39	22,747	(13,448)
NASSAU TOTAL*	34,276,294	7.10%	\$28.86	\$33.68	\$25.07	(61,924)	(29,587)
SUFFOLK							
Western Suffolk	19,131,700	9.80%	\$23.72	\$26.03	\$21.34	(123,434)	(114,336)
Central Suffolk	5,531,647	7.50%	\$22.07	\$25.47	\$21.84	26,905	(2,030)
SUFFOLK TOTAL**	26,945,302	8.80%	\$23.09	\$25.90	\$21.33	(86,189)	(105,634)
LONG ISLAND TOTAL	61,221,596	7.80%	\$25.91	\$29.97	\$23.07	(148,113)	(135,221)

*Totals include all Nassau Submarkets

**Totals include all Suffolk Submarkets

Source: CoStar and Colliers International Research

220 RABRO DRIVE, HAUPPAUGE

+/- 70,153 SF Office Building for Sale

- > Single story building with main street visibility situated on 6.50 acres
- > 100% office with possible conversion to R/D and industrial
- > Zoned Industrial 1
- > 497 parking spaces

333 EARLE OVINGTON BOULEVARD, UNIONDALE

+/- 632,500 SF Class A Office Building for Lease

- > +/- 15,000-30,000 sf (3rd floor) available
- > Through March 30, 2022 (longer term possible)
- > On-site parking and excellent parking
- > Efficient layout, exercise facility
- > Furniture can be made available

444 MERRICK ROAD, LYNBROOK

+/- 106,403 SF Medical Office Building for Lease

- > Over 15,000 SF available for lease
- > Close to LIRR Lynbrook station
- > Convenient to restaurants & retail
- > Parking: Valet & Reserved available

1981/1983 MARCUS AVE, LAKE SUCCESS

+/- 350,000 SF Building for Lease

- > Over 21,000 SF available for lease with suites
- > Beautiful campus setting
- > Cafeteria in Building
- > Convenient access to major highways
- > Underground parking
- > Close proximity to banks, restaurants and shops



400+ offices in
69 countries on
6 continents

United States: **145**

Canada: **28**

Latin America: **23**

Asia Pacific: **86**

EMEA: **131**

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\$2.7

billion in
annual revenue



2

billion square feet
under management

13,000

professionals
and staff

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