

Tight Office Market with Firm Fundamentals Leading into 2018

Rose Liu Director of Finance & Research | Long Island
Takeaways | Class A & B

- Stronger and faster economic growth has provided a solid foundation for the Long Island Office Market throughout 2017. The strengthened job market has also supported office use. The unemployment rate on Long Island edged down slightly to 4.25% in Q4 from 4.45% in Q3. Gross Domestic Product (GDP) expanded to 3.2% in Q3 from 1.2% in Q1. The shift of sales and leasing volumes from Central Business Districts (CBDs) into suburban markets in pursuit of higher yields and more product availabilities has been observed since the peak of 2015. Under the direction of Trump Administration, tax cuts and reform policies would largely favor businesses releasing from regulatory burdens.
- The vacancy rate edged up slightly to 7.8% in Q4, however it was still below the five-year average of 9.04%. Nassau County held the lowest rate of 7.0% in 2017, while Suffolk County saw 60 Basis Points (BPs) up to 8.7% in Q4 from 8.1% in Q3.
- The average rental rates for Nassau and Suffolk Counties climbed to \$26.60 per square foot (psf) in Q4, a 1.29% increase quarter-over-quarter.
- Long Island's net absorption dipped to negative 23,749 square feet (sf) in Q4 with a Year-to-Date (YTD) volume of 318,187 sf, representing a 35.41% increase year-over-year.
- The 2017 YTD leasing activity recorded 2.35 million square feet by the end of Q4 which decreased 15.10% from a year ago due to the tight market. The 2017 YTD sales transaction volume for all Office classes totaled \$484.5 million, a 9.96% increase from a year ago. The average sales price fluctuated in 2017, starting with \$133.00 psf for both Class A & B Buildings and went up to \$167.00 psf in Q2 and then down to \$149.00 psf in Q3 and finally resided at \$147.00 psf in Q4. The cap rate for Class A buildings in Q4 was 7.9% with the average sale price of \$184.00 psf, down from \$188.50 psf in Q3.

Market Indicators

Relative to prior period	Nassau Q4 2017	Nassau Q1 2018*	Suffolk Q4 2017	Suffolk Q1 2018*
VACANCY	↓	↓	↑	↓
NET ABSORPTION	↓	↑	↓	↑
CONSTRUCTION	↓	↔	↓	↔
RENTAL RATE**	↓	↑	↑	↑

Note:

*Projected

**Rental rates for current quarter are for suburban area.

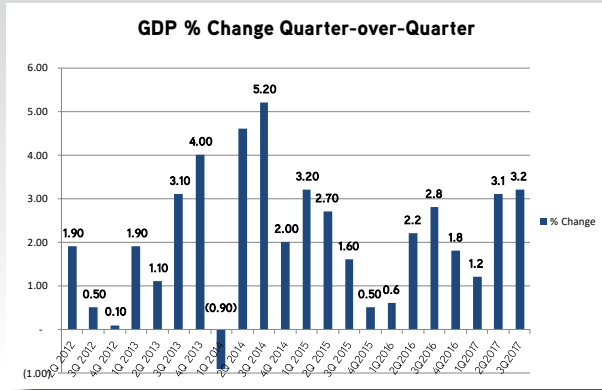
Summary Statistics

Q4 2017 Long Island Office Market

	Nassau	Suffolk	Long Island*
Vacancy Rate	7.0%	8.7%	7.8%
Change From Q3 2017 (basis points)	-30	60	10
Net Absorption (Thousand Square Feet)	98.4	-122.2	-23.7
Vacancy Rate (Class A)	5.9%	10.2%	7.8%
Net Absorption (Class A, Thousand Square Feet)	78.3	(45.9)	32.4
Asking Rents			
Per Square Foot Per Year			
Suburban Class A & B	\$29.29	\$23.28	\$26.60
Change From Q3 2017	-0.48%	2.11%	1.29%
Suburban Class A	\$33.53	\$25.98	\$30.60
Change From Q3 2017	-2.92%	-2.95%	-2.27%

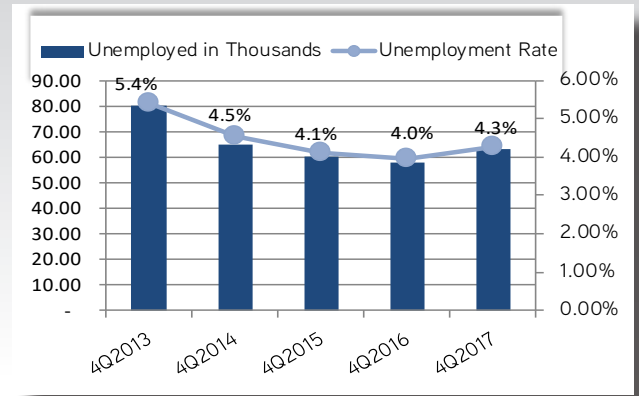
*Long Island Office Market refers to Nassau & Suffolk Counties; 10,000 square feet and above

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

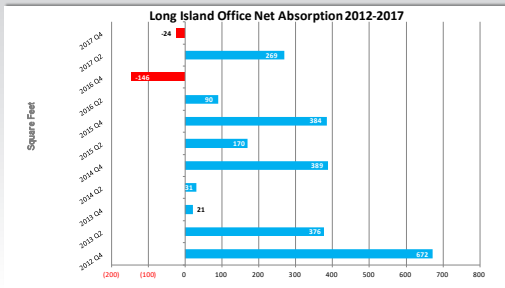
Vacancy

> The vacancy rates for the Long Island Office Market have been seen virtually the same level in the past three years averaging at 8.2%. The vacancy rates continue to dip 30 BPs to 7.0% in Q4 in Nassau County while it increased 60 BPs to 8.7% in Suffolk County. The combined rates in both Counties edged slightly up from 7.7% in Q3 to 7.8% in Q4 by tracking down 1,050 Class A and B buildings. Likewise, Nassau County Class A Office buildings outperformed with lower vacancy rates of 5.9% while Suffolk County increased again to 10.2% in Q4. The Western Nassau submarket with large office complexes and medical office buildings has seen the scarcity of office supply with only a 3.7% vacancy rate.

Rental Rate

> The Q4 Long Island average asking rental rates for Class A & B buildings increased to \$26.60 psf by a minimal 1.29% from Q3 and it was on par with the five-year average. Nassau County saw a decline of 0.48% from \$29.43 psf in Q3 to \$29.29 psf in Q4 while the rental rates in Suffolk County stood at \$23.28 psf, representing a 2.11% increase from Q3. The Q4 overall Long Island asking rental rates for Class A buildings fell by 2.27% in Q4 to \$30.60 psf, canceling out the 2.26% increase in the prior quarter. In general, the Office rental growth on Long Island has almost halted with very slight changes quarter-over-quarter.

Long Island Absorption (Square Feet, in Thousands)



Absorption

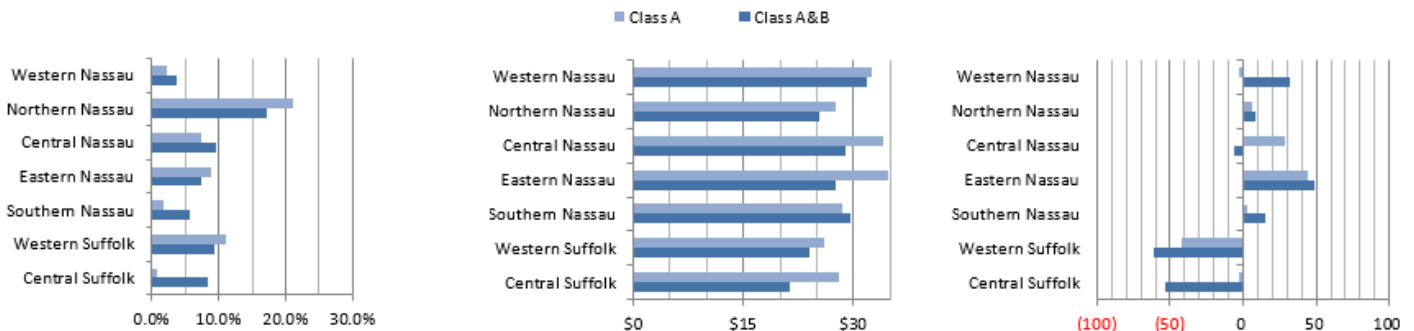
> The Long Island Office Market slowed in the fourth quarter of 2017 partly due to the holiday season and the severe weather. By the end of Q4, the net absorption for Class A & B buildings fell dramatically to negative 23,749 sf with a YTD volume of 318,187 sf, a 35.41% jump from a year ago. Both Nassau and Suffolk Counties dropped the volumes to 98,430 sf and negative 122,179 sf respectively in Q4, which drove the rise of vacancy rates to 8.7% in Q4 in Suffolk County. The YTD net absorption for Class A buildings recorded 210,176 sf in 2017, however it dropped by 33.83% year-over-year.

UPDATE Vacancy Rates, Asking Rents, & Absorption

VACANCY RATES

AVERAGE ASKING RENTS

NET ABSORPTION (IN THOUSANDS)



Source: CoStar & Colliers International Research

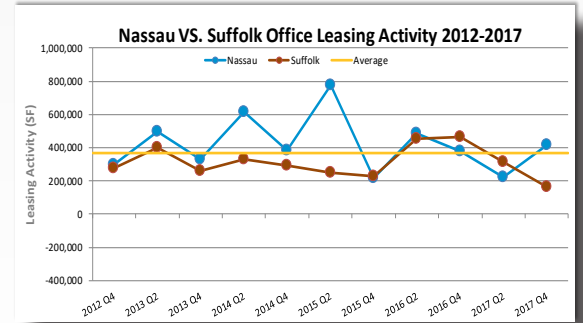
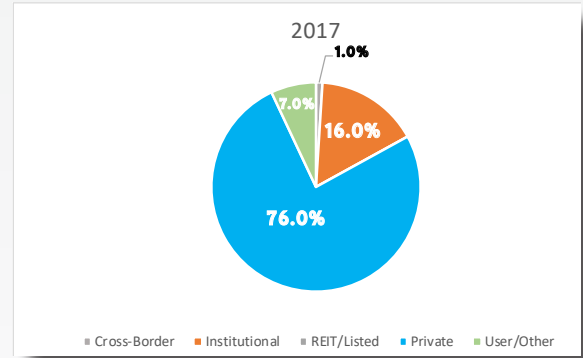
Capital Markets

> Long Island's Capital Markets has marked another year of success in 2017 which indicates investors' appetite has shifted from CBDs to suburban markets. The national office investment is showing signs of cooling with sales volume down by 18% however national suburban sales volume increased by 4% annually according to the Colliers U.S. Q3 2017 Office Report. With the soaring prices and low cap rates in CBDs, investors are more linear to invest in suburban markets in pursuit of higher yields and more affordable prices. Nevertheless, Long Island is the backyard of Manhattan, Queens and Brooklyn, therefore we have seen investors being more actively sourcing deals in this market. The quarterly sales volume in Q4 grew to \$84,490,036, 34.01% up quarter-over-quarter. The YTD sales volume totaled \$484,538,180 in 2017 with a 9.96% increase from 2016. The Q4 cap rate went up slightly to 8.4% from 8.21% in Q3. However, the average sales price decreased to \$147.00 psf, \$2.00 psf down from Q3. The largest transaction in this quarter was the sale of 283,000 SF office complex by a New Jersey-based real estate firm for \$61 million at 878, 888, 898 Veterans Memorial Highway in Hauppauge.

Lease Activity

> The Q4 leasing activity for Class A & B buildings totaled 580,401 sf, 17.67% up from Q3. The YTD 2017 leasing activity captured 2,345,083 sf, 15.10% down from a year ago. Class A buildings also saw rapid growth of a 34.96% increase to 311,388 sf in Q4. Since Long Island has had a shortage of a large amount of quality Office space, and not as much large office lease activity has taken place this quarter. Assured Insurance signed a 10-year lease of 25,000 sf space at 100 Baylis Road in Melville.

Investment Activity Buyer Types



Source: CoStar, RCA & Colliers International Research

Update Transaction Highlights

OFFICE SALE ACTIVITY



PROPERTY ADDRESS	TOWN	SUBMARKET	SIZE SF	SOLD PRICE
878, 888, 898 Veterans Memorial Hwy	Hauppauge	Suffolk Central	283,000	\$61,000,000
25 Melville Park Road	Melville	Suffolk Western	98,624	\$10,400,000
90 Charles Lindbergh Boulevard	Uniondale	Nassau Central	99,000	\$5,000,000
175-200 Community Drive	Manhasset	Nassau Western	90,941	\$9,533,888

OFFICE LEASE ACTIVITY



PROPERTY ADDRESS	TOWN	SUBMARKET	SIZE SF	LEASE TYPE
100 Baylis Road	Melville	Suffolk Western	25,000	Lease
333 Earle Ovington Boulevard	Uniondale	Nassau Central	21,687	Lease
3 Dakota Drive	Lake Success	Nassau Western	21,000	Lease
68 South Service Road	Melville	Suffolk Western	14,750	Sublease

Outlook

> The Long Island Office Market has marked another year of steady performance with firm fundamentals that will continue to prosper in 2018. Office supply continues to diminish especially in the Western Nassau and Central Nassau submarkets, where the high demand is largely benefiting from the increasing population and close proximity to the boroughs. Developers on Long Island have aimed to revitalize Long Island and attract young people.

> Investors' sentiment remains strong on Long Island with the trend of pouring a lot more investments into the suburban markets. While economists penciled in a slowing 2017, it did not happen showing strong economic fundamentals. With the strengthened economy and tax cut stimulus packet, the Long Island Office Market will continue to benefit from the overall healthy local and global markets.

UPDATE - MARKET STATISTICS SNAPSHOT

LONG ISLAND – CLASS A & B									
COUNTY		VACANCY RATE				AVERAGE ASKING RENTS			
		2017 Q4	2017 Q3	2017 Q2	2017 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Nassau	Total	7.0%	7.3%	7.3%	7.2%	\$29.29	\$29.43	\$29.38	\$29.46
516 Bldgs	Lease	6.8%	7.1%	7.1%	7.1%	\$29.46	\$29.68	\$29.59	\$29.44
	Sublease	0.2%	0.2%	0.2%	0.1%	\$27.70	\$24.03	\$29.86	\$29.92
Suffolk	Total	8.7%	8.1%	8.1%	9.1%	\$23.28	\$22.80	\$22.82	\$23.01
534 Bldgs	Lease	8.1%	7.6%	7.4%	8.4%	\$23.28	\$22.80	\$22.82	\$23.08
	Sublease	0.6%	0.5%	0.7%	0.8%	\$22.71	\$20.07	\$19.22	\$18.10
Long Island	Total	7.8%	7.7%	7.6%	8.1%	\$26.60	\$26.26	\$26.16	\$26.12
1,050 Bldgs	Lease	7.4%	7.3%	7.2%	7.7%	\$26.72	\$26.44	\$26.32	\$26.19
	Sublease	0.4%	0.4%	0.4%	0.4%	\$24.51	\$22.45	\$27.92	\$25.10
Nassau	Total	5.9%	6.4%	6.9%	6.3%	\$33.53	\$34.54	\$33.11	\$33.24
78 Class A Bldgs	Lease	5.5%	6.1%	6.5%	6.2%	\$33.72	\$34.76	\$33.36	\$33.22
	Sublease	0.3%	0.4%	0.4%	0.1%	\$26.60	\$22.45	\$29.66	\$29.76
Suffolk	Total	10.2%	9.8%	9.7%	9.8%	\$25.98	\$26.77	\$26.52	\$26.83
81 Class A Bldgs	Lease	9.0%	8.6%	8.3%	8.2%	\$25.98	\$26.77	\$26.52	\$26.86
	Sublease	1.3%	1.2%	1.5%	1.6%	\$23.02	\$21.02	\$20.19	\$24.77
Long Island	Total	7.8%	7.9%	8.2%	7.9%	\$30.60	\$31.31	\$30.50	\$30.30
159 Class A Bldgs	Lease	7.0%	7.2%	7.3%	7.1%	\$30.79	\$31.60	\$30.76	\$30.29
	Sublease	0.7%	0.7%	0.9%	0.8%	\$24.10	\$21.83	\$28.00	\$28.98

LONG ISLAND – CLASS A & B -Q4 2017							
MARKET	EXISTING INVENTORY (SF) DECEMBER 31, 2017	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	9,616,339	3.70%	\$31.84	\$32.53	\$31.01	32,403	258,145
Northern Nassau	457,906	17.20%	\$25.30	\$27.50	\$25.29	8,102	(27,668)
Central Nassau	11,069,365	9.60%	\$28.95	\$33.94	\$23.90	(6,563)	(160,280)
Eastern Nassau	10,204,746	7.40%	\$27.51	\$34.61	\$22.69	49,088	76,350
Southern Nassau	2,409,423	5.60%	\$29.47	\$28.38	\$29.56	14,701	8,996
NASSAU TOTAL*	34,078,044	7.00%	\$29.29	\$33.53	\$25.96	98,430	148,093
SUFFOLK							
Western Suffolk	19,401,042	9.30%	\$24.02	\$25.91	\$22.50	(61,542)	125,339
Central Suffolk	5,737,889	8.50%	\$21.37	\$28.00	\$21.16	(53,693)	(33,903)
SUFFOLK TOTAL**	27,310,513	8.70%	\$23.28	\$25.98	\$21.86	(122,179)	170,094
LONG ISLAND TOTAL	61,388,557	7.80%	\$26.60	\$30.60	\$23.97	(23,749)	318,187

*Totals include all Nassau Submarkets

**Totals include all Suffolk Submarkets

Source: CoStar and Colliers International Research

175 PINELAWN ROAD, MELVILLE

+/- 103,192 SF Class A Office Building for Lease

- > Over 41,000 SF available for lease with suites
- > Sleek offices with large window lines, beautifully landscaped
- > Many upgraded finishes and immaculately maintained
- > Full cafeteria; storage available
- > Excellent parking available
- > Accessible to LIE, Broadhollow Rd, Route 109
- > Under new strong ownership

381 SUNRISE HIGHWAY, LYNBROOK

+/- 58,967 SF Office Building for Lease

- > Available Space: +/- 11,608 SF with suites
- > Located on Sunrise Highway
- > Abundant parking
- > Walking distance to LIRR

1 OLD COUNTRY ROAD, CARLE PLACE

+/- 72,868 SF Office Building for Lease

- > Under new ownership
- > Renovations underway
- > Suites available from 1,000 SF to 30,000 SF
- > On-site management
- > Food service in the building, HSBC Bank Branch, and Barber

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



403 offices in
68 countries on
6 continents

United States: **153**
Canada: **29**
Latin America: **24**
Asia Pacific: **86**
EMEA: **111**

MARKET CONTACT:

Rose Liu
Director of Finance & Research | Long Island
Main +1 516 328 6500 Ext. 555
Dir +1 516 284 3447
rose.liu@colliers.com

Marne Collen
Marketing Director | Long Island
Main +1 516 328 6500
marne.collen@colliers.com

\$2.6

billion in
annual revenue



2

billion square feet
under management

15,000

professionals
and staff

About Colliers International Group, Inc.

Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIGI) is an industry leading global real estate services company with 15,000 skilled professionals operating in 68 countries. With an enterprising culture and significant employee ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include strategic advice and execution for property sales, leasing and finance; global corporate solutions; property, facility and project management; workplace solutions; appraisal, valuation and tax consulting; customized research; and thought leadership consulting.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice that helps clients accelerate their success. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 12 consecutive years, more than any other real estate services firm. Colliers also has been ranked the top property manager in the world by Commercial Property Executive for two years in a row.

colliers.com

Copyright © 2018 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.