



CBRE Q2 2020 office market report: LI market holding steady during COVID-19 pandemic

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Melville, NY According to CBRE's Q2 2020 office market report, the Long Island commercial office market remained unchanged quarter-over-quarter, showing strong fundamentals and stability despite an ongoing decrease in leasing activity due to the COVID-related forces.

Leading up to the pandemic, Long Island's office market fundamentals were robust with availability trending downward and average asking rents reaching record highs at \$28.05 per s/f, putting the market in an overall healthy position. Year-to-date net absorption totaled 283,000 s/f, due to a strong first quarter. At the close of the second quarter, the overall availability rate remained unchanged from the previous quarter at 10.6% despite uncertainties brought on by COVID-19. The overall average asking rent increased by 2% to \$28.05 per s/f since Q2 2019.

"Office leasing on Long Island is picking up as we begin to emerge from the current health crisis with several new leases and significant renewals," said Tricia Shay, senior managing director of CBRE's local office. "We are cautiously optimistic this momentum will continue in the latter half of 2020."

Availability within class A office space continued its downward trend, decreasing 120 bps year-over-year to 9.7%, from 10.9% in Q2 2019. Class B space availability increased from 10.9% in Q2 2019 to 11.3% in Q2 2020.

Market Overview

Despite a national recession and the effect of the COVID-19 pandemic, the Long Island market remains stable. Leading up to the pandemic, Long Island's office market fundamentals were robust with availability trending downward and average asking rents reaching record highs putting the market in an overall healthy position. At the close of the second quarter and despite COVID-19, the overall availability rate and average asking rent remained relatively unchanged from the previous quarter at 10.6% and \$28.05 per s/f, respectively.

Economic decline and future uncertainty brought on by COVID-19 have slowed transaction activity market-wide. In Q2 2020, 353,000 s/f of office space was leased in the Long Island market, 26% behind the five-year quarterly average of 474,000 s/f. The overall lack of significant leasing activity caused net absorption to dip to negative 28,000 s/f, compared to 311,000 s/f in the previous quarter.

Economic Conditions

COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially in the Northeast, facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 15% nationally and likely causing the economy to contract by more than 30% per annum in the second quarter.

Several high-frequency indicators, such as hotel occupancies, restaurant traffic and hours worked, suggest the US economy bottomed in April and has been trending slightly upward since. This has renewed demand for labor as many hard-hit sectors, such as hospitality and healthcare, began to bring back furloughed workers in May. While job recovery in the Tri-State has lagged regions that began reopening earlier, employers in the area began returning furloughed workers to their places of business in May.

Total nonfarm employment on Long Island fell from a pre-COVID-19 high of 1.36 million positions in February to a low of 1.06 million positions in April (-21.9%). By the end of May, employment had increased to 1.1 million positions or 81% of February employment levels. Office-using employment on Long Island fell by 31,500 positions (-12.2%) with over 85% of these losses coming from professional and business services. Long Island has since recovered 1,400 office-using positions or 4.4% of those lost. This rebound in office-using positions was consistent with the national average which saw office-using firms recover 4.6% of their pre-COVID-19 employment. Weekly unemployment claims on Long Island averaged 11,300 per week in June, down from 23,400 in May, and 43,200 in April.

Leasing Activity

In Q2 2020, 353,000 s/f of office space was leased in the Long Island market, 28% below the previous quarter and 27% lower than a year ago. In addition, leasing activity was 26% below the five-year quarterly average. This brought the mid-year total to 842,000 s/f, 19% below its ten-year average of one million s/f.

The quarter's top deal was a 96,867 s/f lease by 1-800-Flowers.com. After a long search, the company is moving its headquarters from Carle Place to the newly renovated, 2 Jericho Plaza in Jericho. As is often the case on Long Island, one or two large lease transactions or new blocks of available space can significantly impact the market. Without this transaction, the quarter's leasing activity would have been the lowest quarterly total on record.

Net Absorption and Availability

With the Long Island market at a near standstill as tenants wait on decisions due to the COVID-19 pandemic, Long Island posted 28,000 s/f of negative net absorption in Q2 2020. Year-to-date net absorption totaled 283,000 s/f, due to a strong first quarter. Despite this negative quarterly absorption, the overall availability rate remained unchanged from the previous quarter at 10.6%.

Availability within class A office space continued its downward trend, decreasing to 9.7%, from 10.9% in Q2 2019. Class B space increased from 10.9% in Q2 2019 to 11.3% in Q2 2020. Year-over-year Eastern Nassau saw the largest change, dropping by 210 bps to 7.6%, due to the 1-800-Flowers.com lease. The shortage of available class A space coupled with the scarcity of large blocks of prime space make it difficult for larger tenants in the market.

Average Asking Rent

Long Island's overall average asking rent inched down just \$0.14 per s/f to \$28.05 per s/f quarter-over-quarter and rose \$0.55 per s/f year-over-year. While the overall market was stable, the Eastern Nassau submarket's average asking rent dropped 7% to \$27.82 per s/f. This decrease can be attributed to the 1-800-Flowers.com lease that removed a large block of higher priced class A space at 2 Jericho Plaza in Jericho.

Overall, annual rent growth was reported in every submarket except Eastern Nassau. The Western Nassau County submarket continued to be the most expensive at \$34.26 per s/f, which is the highest rate recorded for the submarket to date. Conversely, the Central Suffolk County submarket holds the lowest average asking rent, at \$22.79 per s/f

CBRE's market report analyzes fully modernized office buildings that total 20,000+ s/f 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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