

An aerial photograph of a coastal area. In the upper left, there is an industrial facility with several tall smokestacks and large storage tanks. To the right of the industrial area is a marina filled with numerous small boats. Below the marina is a sandy beach. To the left of the beach is a large parking lot filled with cars. In the foreground, there is a swimming pool with a blue roof. The background shows a dense forest and a body of water.

**AVISON
YOUNG**

Long Island Office Insight Report

Q3 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed the Long Island unemployment rate to rebound from a post-COVID high of 17.5 percent to **5.2 percent** as of July 2021.



Recovery rate

- The share of the total Long Island population that is fully vaccinated is **65.6 percent**, which is higher than the national average and may serve as a leading indicator for increasing return-to-work efforts.



Office demand

- Significant uncertainty remains as office occupiers continue to navigate their long-term workplace strategies, resulting in post-COVID annualized leasing activity that is **38.5 percent** below the preceding 20-year average.



Office supply

- Direct and sublease vacancy rates have dipped slightly from their recent historical highs, totaling **9.9 percent** as of Q3 2021.
- The sublease market continues to drag aggregate office fundamentals, accounting for **744,000 sf** of vacant space.



Pricing trends

- Asking rents have escalated by **4.1 percent** year-to-date, reflecting the Class A composition of availabilities.



Capital markets

- Long Island office transaction volume has totaled **\$486M** since 2020, an annualized decrease of **43.2 percent** compared with the prior five-year average.
- Asset pricing has softened by **48.2 percent** from 2019 to present, though pricing discovery is ongoing provided the limited investment activity.

01.

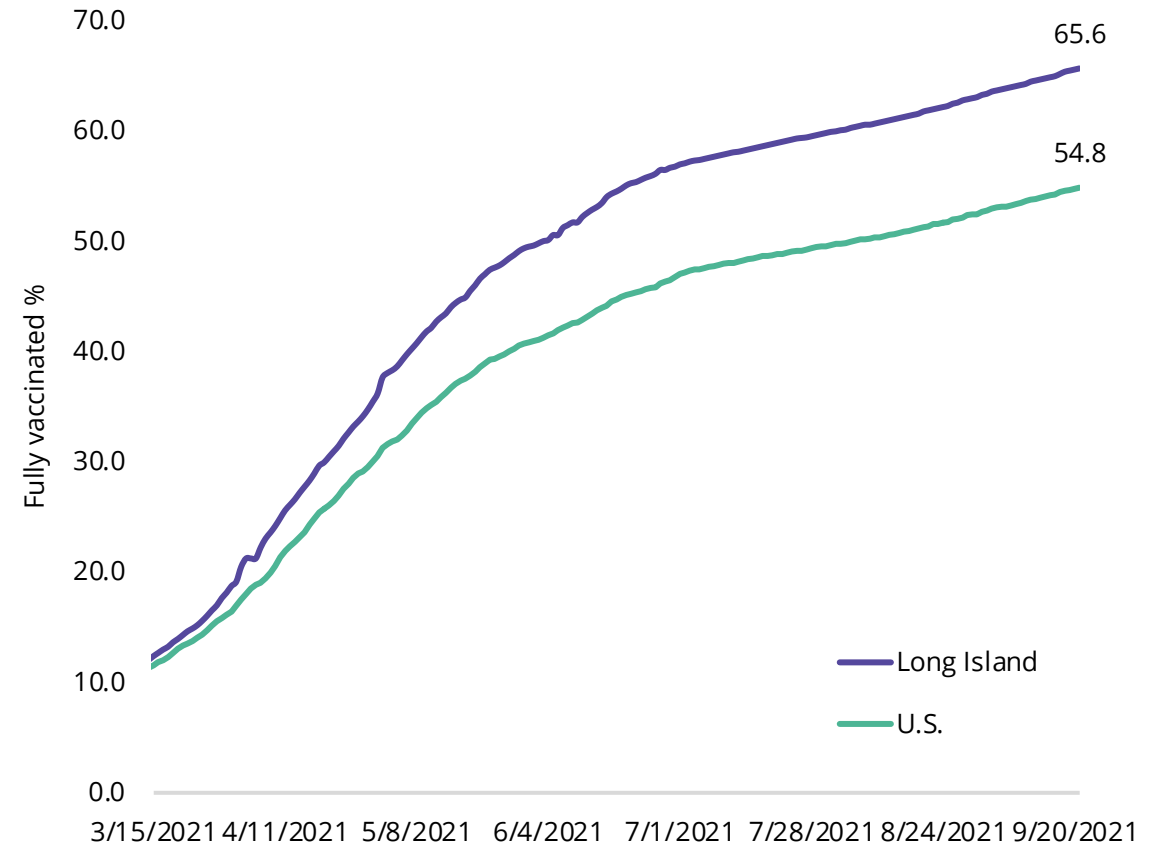
Economic trends

Vaccination rates

65.6%

**Share of Long Island population
that is fully vaccinated**

Long Island proportionate vaccination rates have surpassed the U.S. average, an important metric that has allowed the market to loosen restrictions.



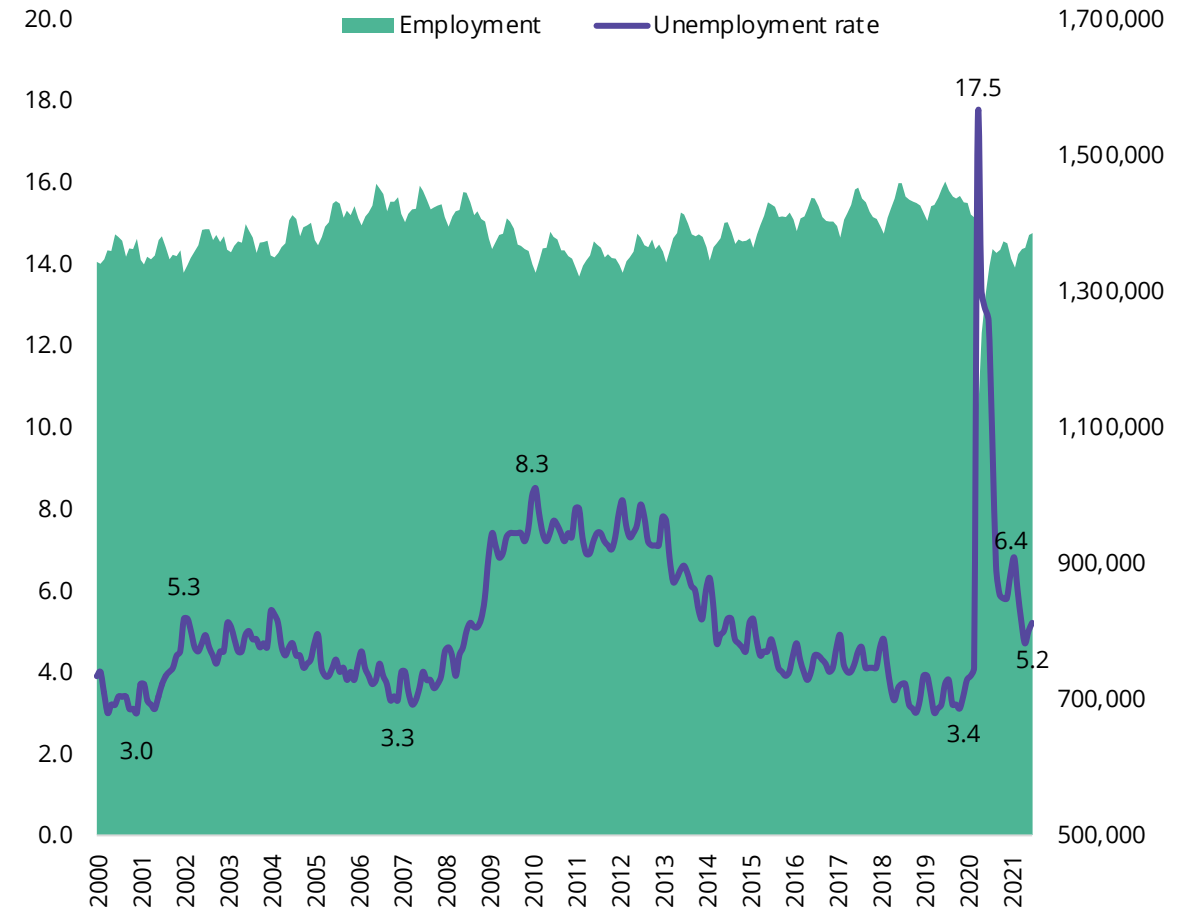
Source: CDC

Employment and unemployment rate

5.2%

Long Island unemployment rate as of July 2021, dipping below the height of the Financial Crisis

Nearly 281,000 job losses were reported between February 2020 and April 2020; however, reopening efforts enabled the economy to add back 11.8% of these jobs. Employment growth has been stagnant from April 2021 to July 2021, with job additions totaling 0.1% in that timeframe.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

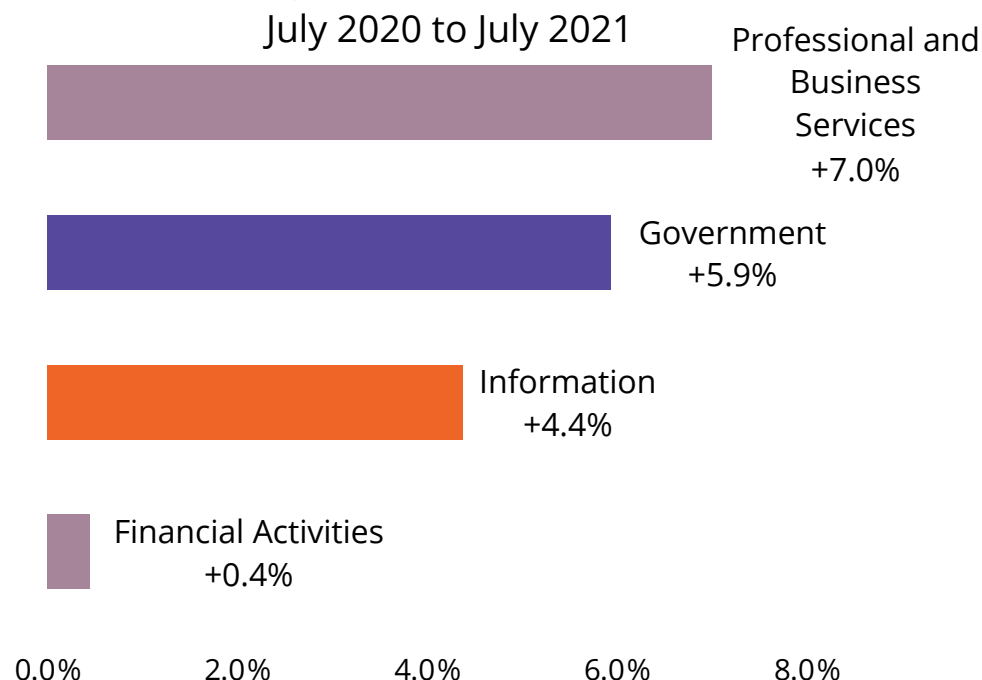
Office-using job gains and losses

+5.4%

Change in office-using employment from July 2020 to July 2021

Total Nassau-Suffolk Metropolitan Division jobs have increased by 3.6% from July 2020 to July 2021, with office-using jobs increasing by 5.4% during the same period. This demonstrates that the Long Island office-using sector has been outperforming the broader economy, sustaining underlying office demand fundamentals.

YoY change in Nassau-Suffolk Metropolitan Division job gains/(losses)



Note: Not seasonally adjusted data. Metropolitan division.
Source: Bureau of Labor Statistics

02.

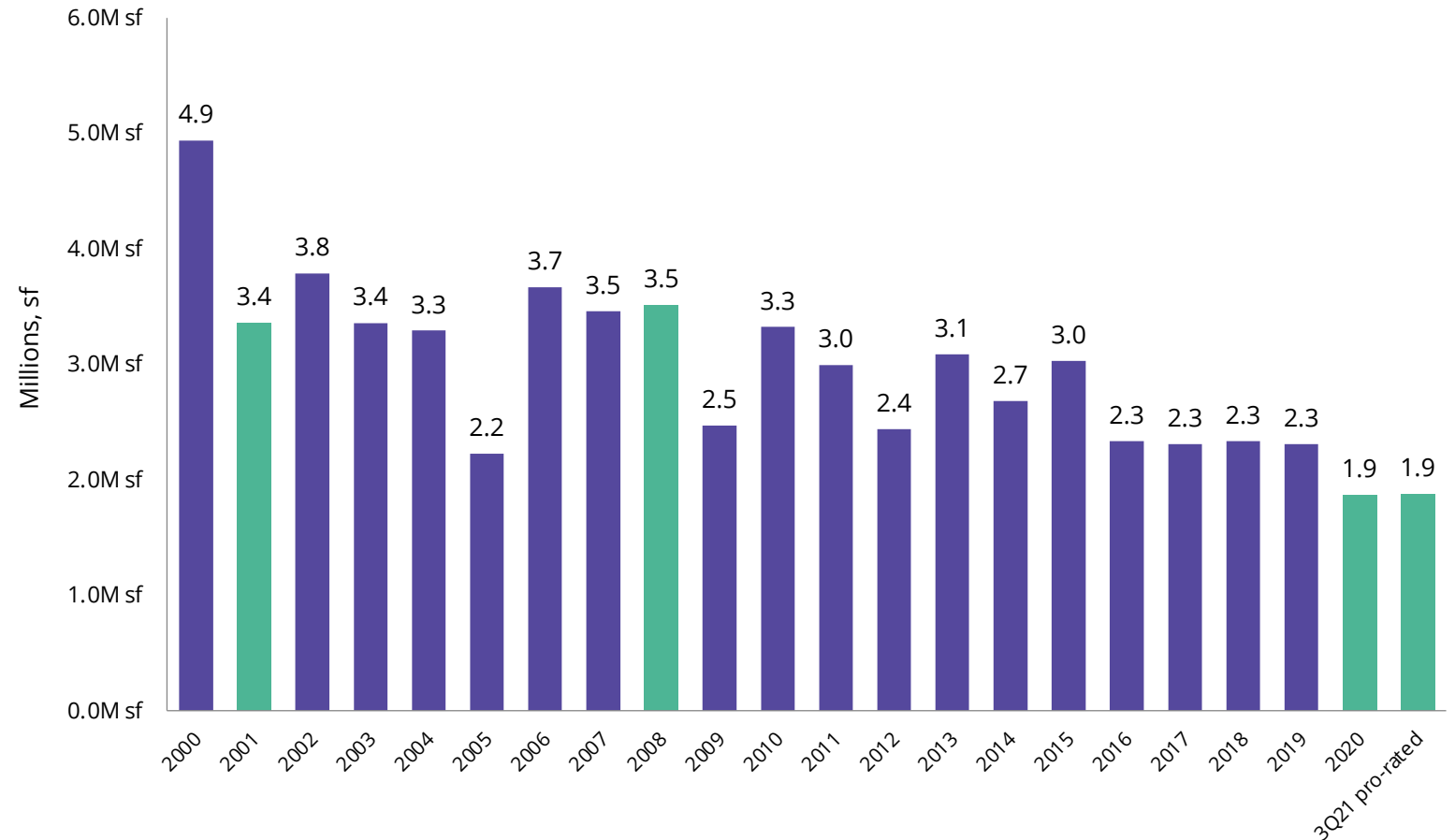
Office occupier conditions

Office leasing activity

-38.5%

**2020 to pro-rated 2021
vs. prior 20-year annual
average leasing activity**

There is no modern precedent for the post-COVID slowdown in Long Island leasing activity due to the sudden change in office occupiers' future workplace strategies and the 2020 recession.



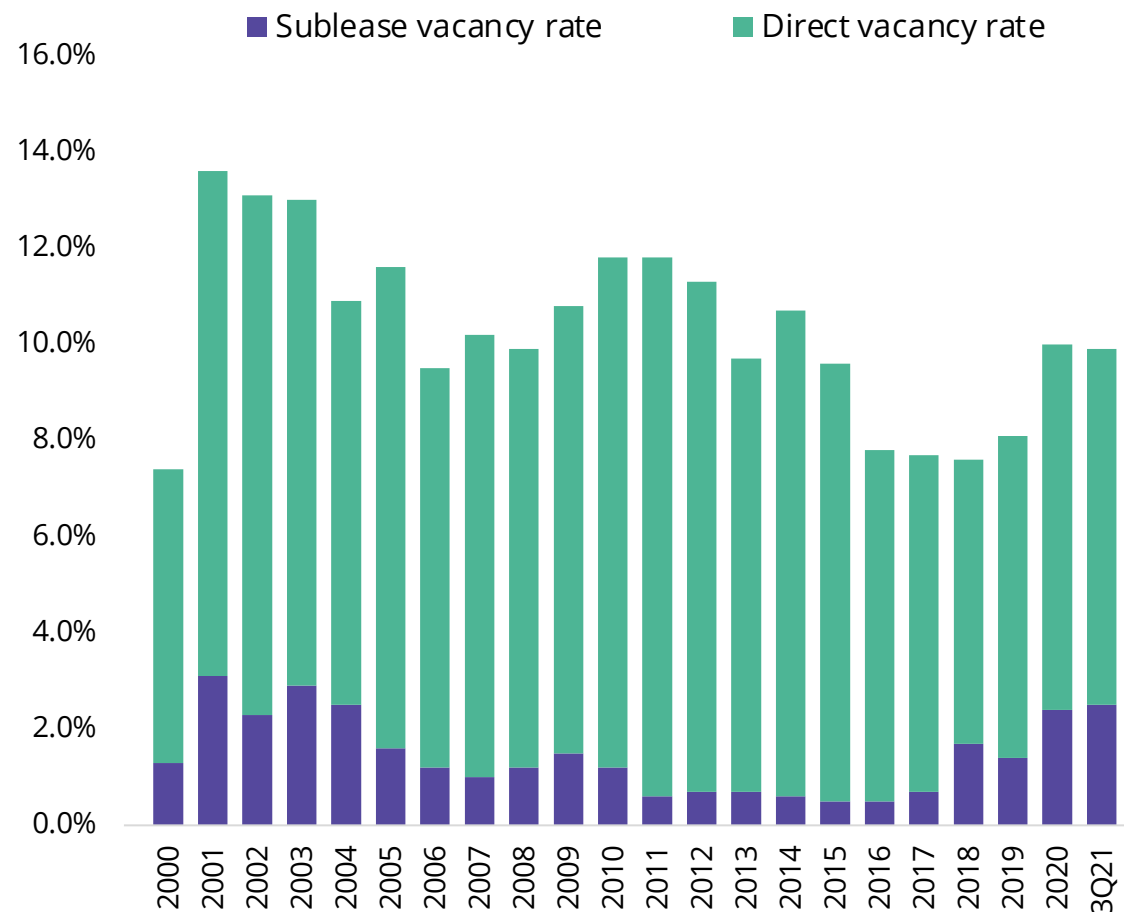
Source: CoStar, AVANT by Avison Young

Class A vacancy rate

9.9%

Long Island Class A vacancy as of Q3 2021

The Q3 2021 vacancy rate remained elevated in terms of sublease (2.5%), direct (7.4%) and total (9.9%) percentages. The total vacancy rate represents a 10bp decrease from year-end 2020 and a 180bp increase from year-end 2019.



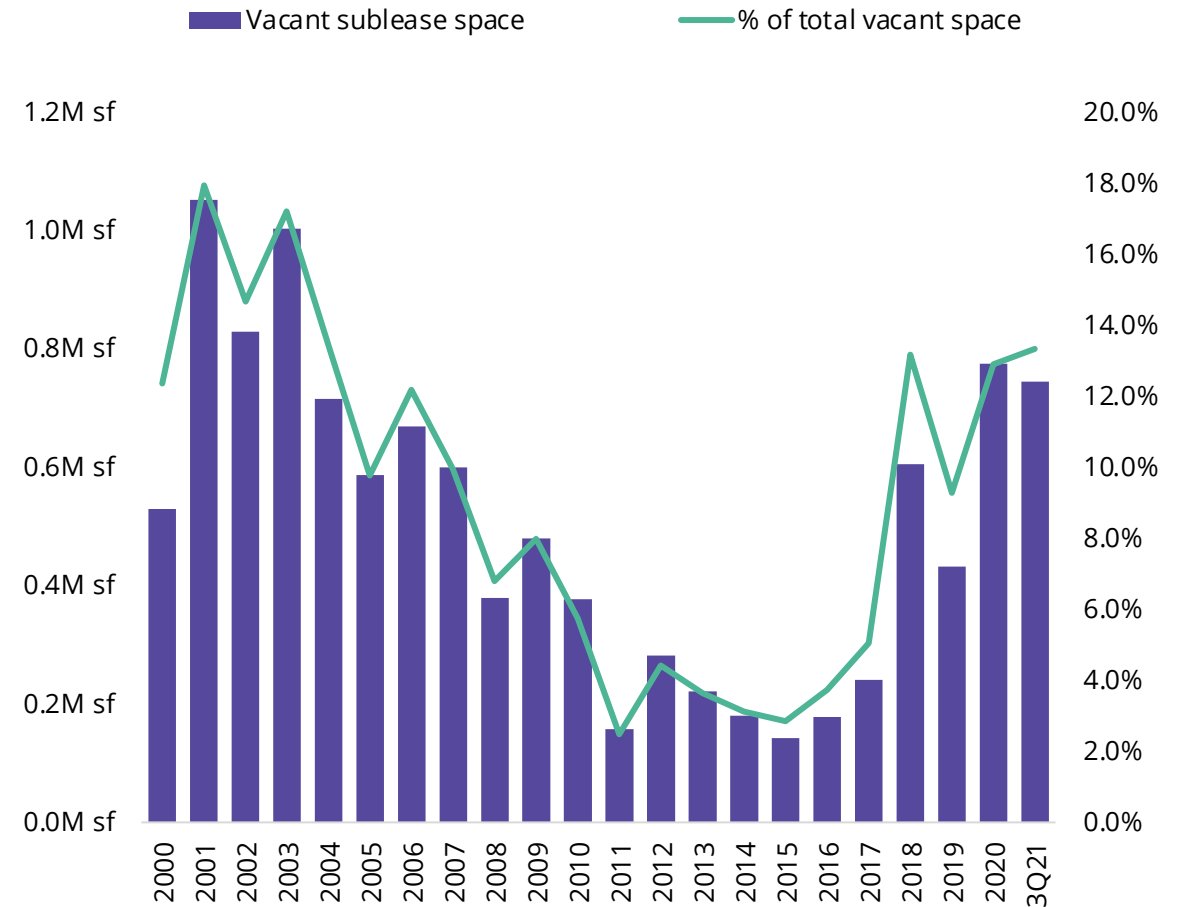
Note: Class A office properties
Source: AVANT by Avison Young

Vacant sublease space

744,000 sf

Total vacant sublease space

The share of sublease-to-total vacant space of 13.3% has risen since the end of 2020 (12.9%) and is elevated by 2016 to 2019 levels (average of 7.8%). A supply-and-demand imbalance in favor of tenants is likely to persist until this rate decreases.



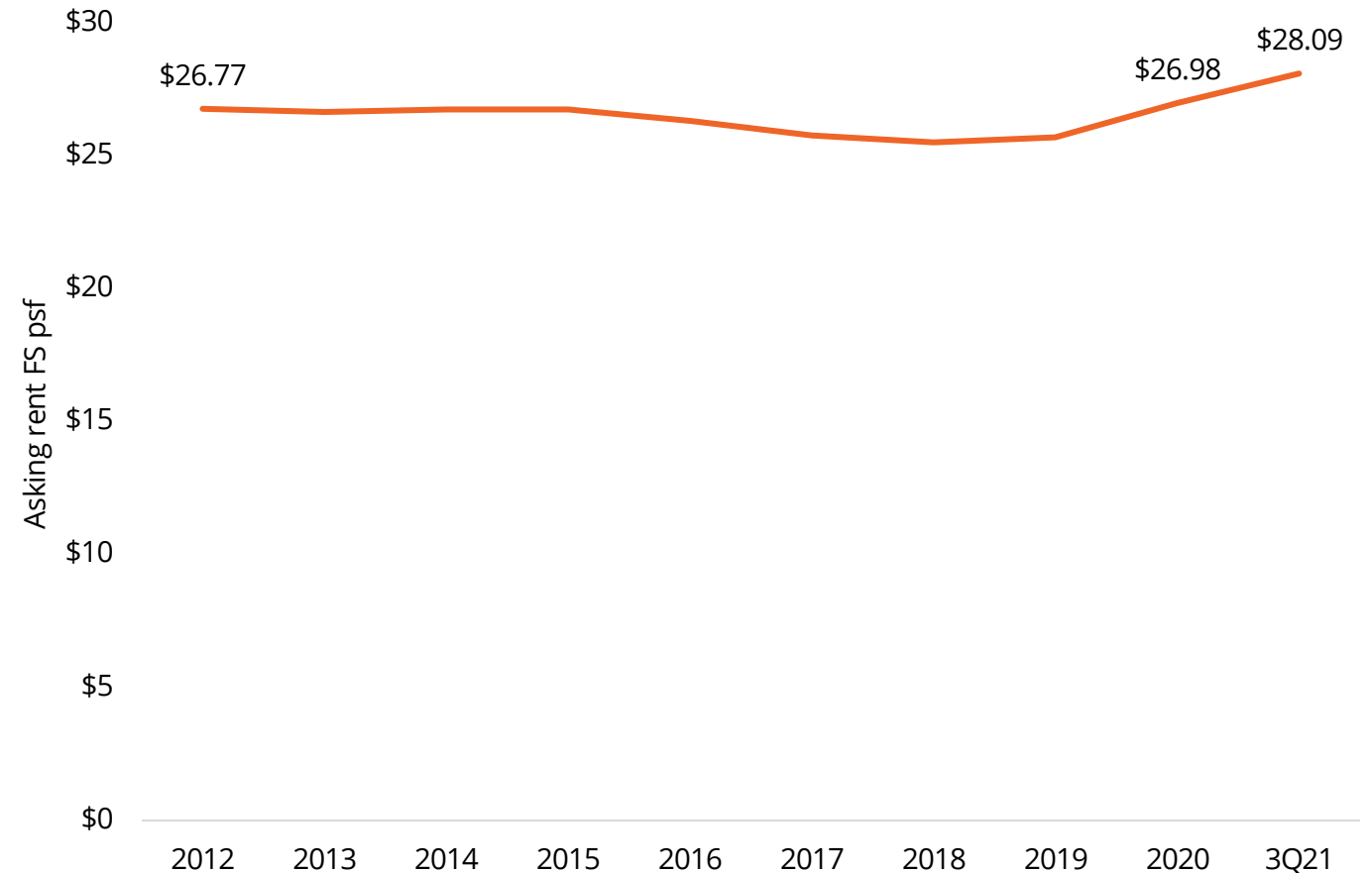
Source: AVANT by Avison Young

Asking rents

4.1%

2020 to Q3 2021 base rent change

An increase in asking rents has been influenced by above-market, Class A availabilities getting introduced into the market. More generous incentives are being offered by landlords to induce tenant commitments, causing net effective rents to soften despite stabilized base rents.



Note: Excludes subleases.
Source: AVANT by Avison Young

03.

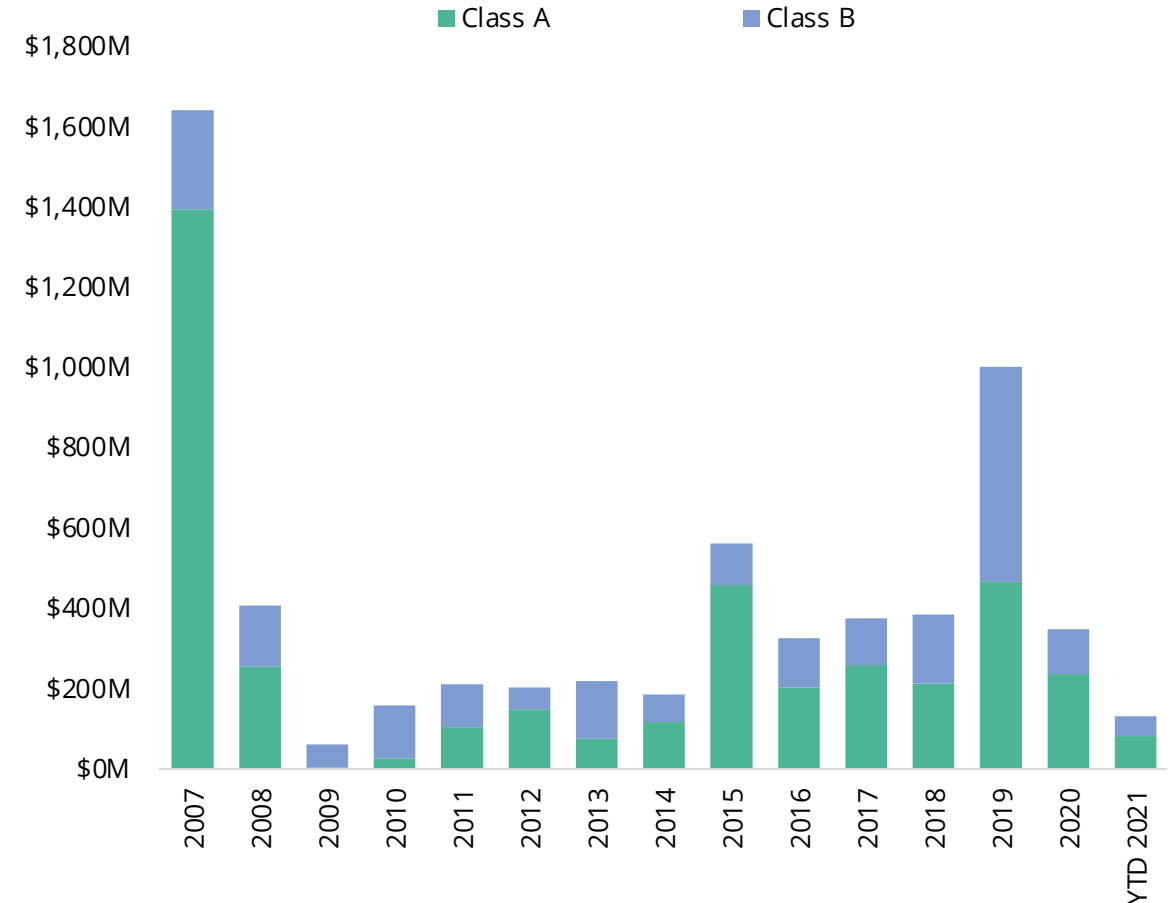
Capital market conditions

Office investment dollar volume

\$486M

Long Island office dollar volume 2020 to present

Office sales activity has temporarily paused during the pandemic, with 2020 to Q3 2021 pro-rata dollar volume decreasing by a rate of 43.2% compared with the prior five-year average.



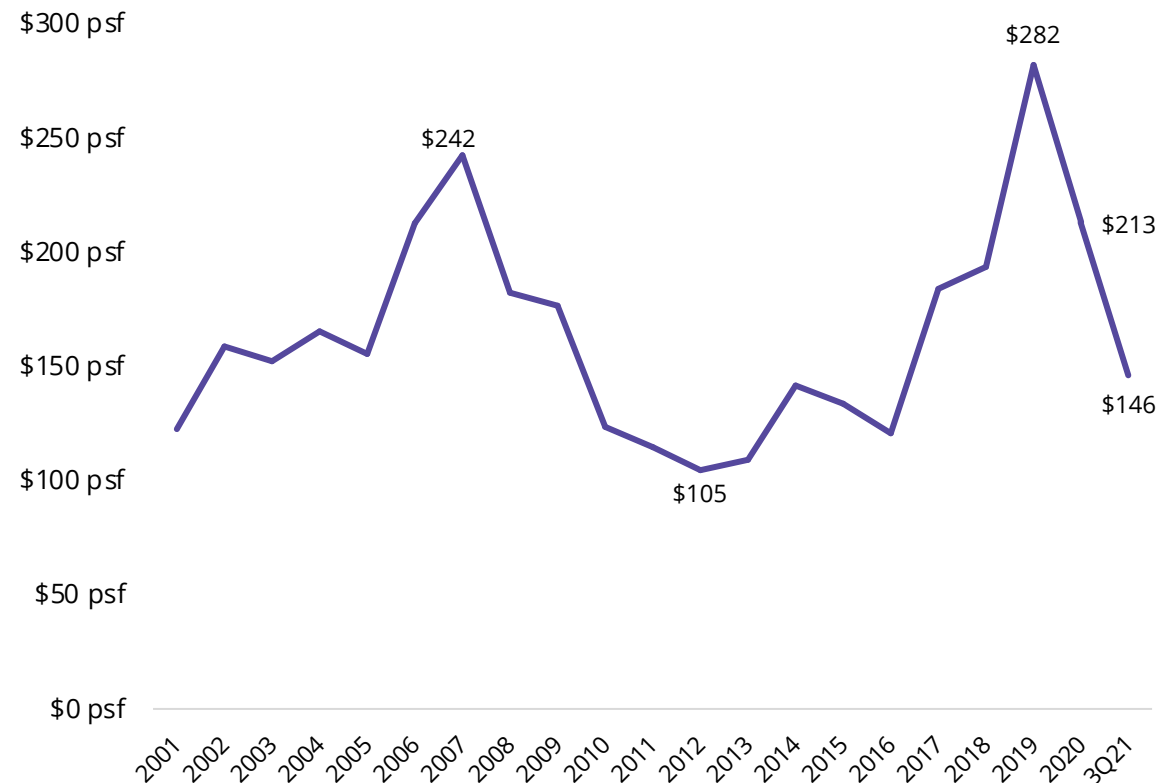
Source: AVANT by Avison Young, RCA

Office asset pricing

-48.2%

Long Island office pricing from 2019 to Q3 2021

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$282 psf in 2019 to \$146 psf in 2021. The recent downward trend has been partially influenced by the slowdown in transaction volume and the composition of those deals.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- **Office market conditions are poised to remain uncertain**, as there is likely to be a reluctance by tenants to make new space acquisition commitments when workplace strategies are largely undetermined.
- Although over 65% of the Long Island populace is fully vaccinated, **office tenants are still hesitant to return** to an in-person work environment, which is negatively affecting office demand.
- COVID-19 complications have caused office leasing to reach a recent historic low. **There is some hope**, however, that some New York City-based office occupiers could investigate opening an outpost in surrounding suburban markets like Long Island. This shift would enable employees to avoid exposure to others through mass transit systems while providing increased in-person work optionality.



Get in touch



Ted Stratigos

Principal & Managing Director
Industrial, Office Leasing, Tenant Representation
+1 516 962 5400
ted.stratigos@avisonyoung.com



Parker Nusim

Data Analyst
+1 973 908-5679
parker.nusim@avisonyoung.com



AVISON
YOUNG

Let's talk

© 2021 Avison Young New York. All rights reserved. E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.

AVANT
by AVISON YOUNG