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Long Island Office Insight Report

Q2 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 **5.4 percent** as of April 2021.
- The share of the total Long Island population that is fully vaccinated is **51 percent**, which is higher than the national average and serves as a leading indicator for return-to-work efforts.



Office demand

- Leasing activity has paused since the pandemic, decreasing by an annualized rate of **41.6 percent** compared with the 20-year historical average.



Office supply

- Direct and sublease vacancy have reached recent historical highs, totaling **9.4 percent** as of Q2 2021.
- The sublease market continues to drag aggregate office fundamentals, accounting for **717,000 sf** of vacant space.



Capital markets

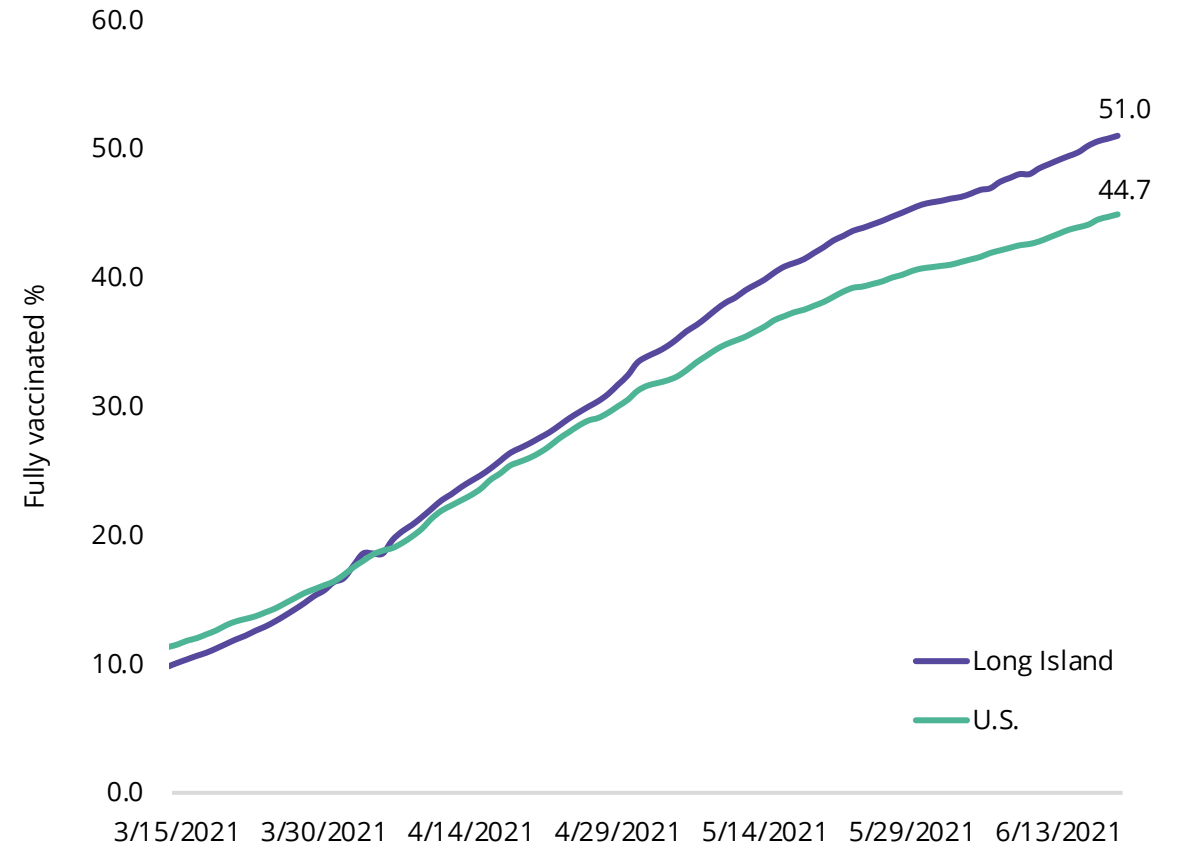
- Only **\$435M** of Long Island offices have been sold since 2020, an annualized decrease of **50.4 percent** compared with the past five-year average.
- Asset pricing has softened by **52.6 percent** from 2019 to present, though pricing discovery is ongoing provided the limited investment sales volume.

Vaccination rates

51.0%

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.



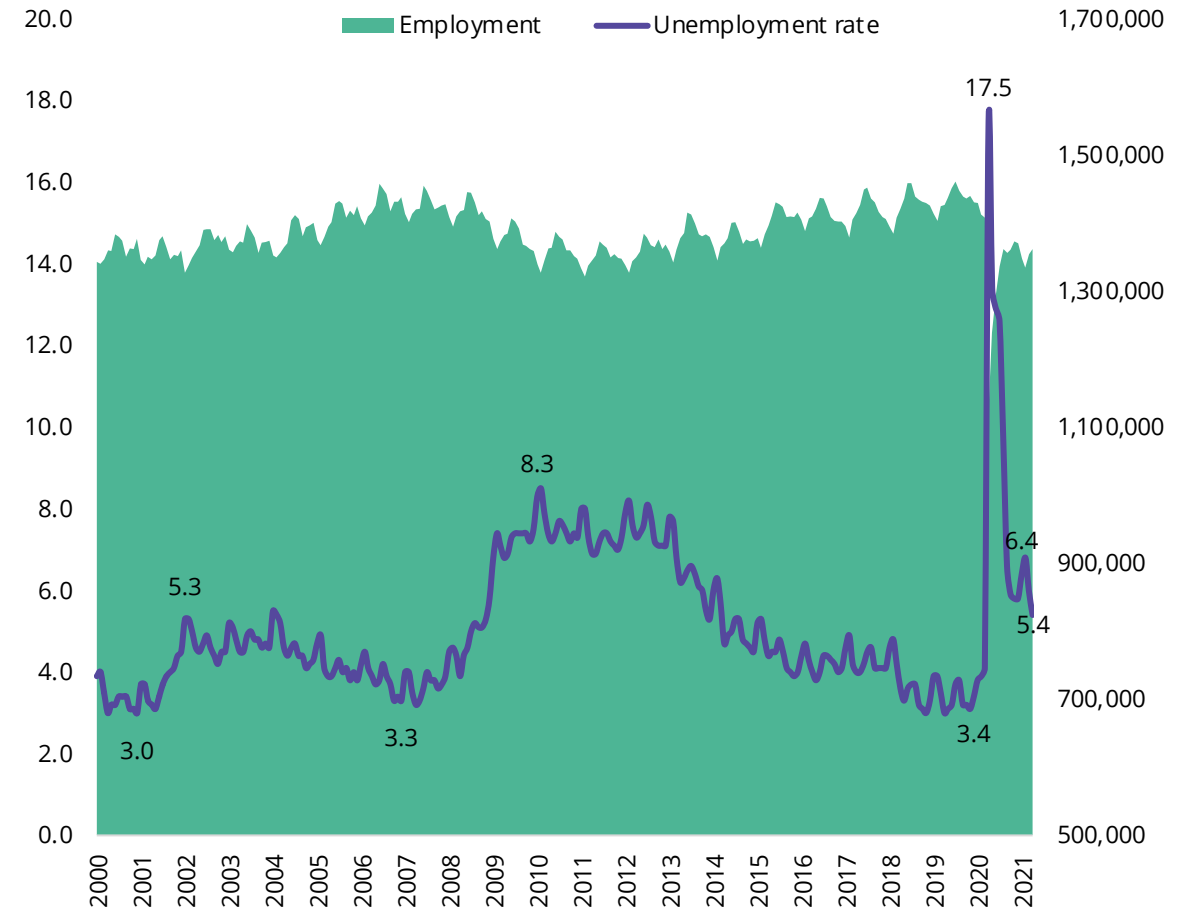
Source: CDC

Employment and unemployment rate

5.4%

Long Island unemployment rate as of April 2021, dipping below the height of the financial crisis

Historically tightened labor market conditions were halted by the pandemic with nearly 281,000 job losses between February 2020 and April 2020. However, reopening efforts enabled the economy to add 10.0% of these jobs since April 2020.



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

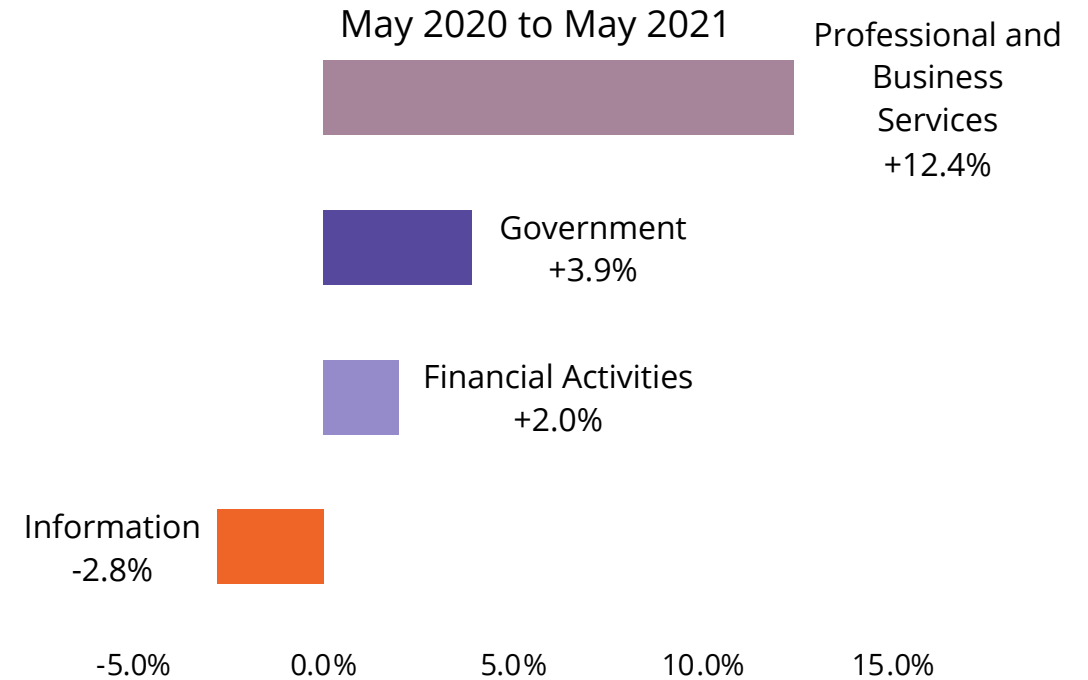
Office-using job gains and losses

+8.4%

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

Total Nassau-Suffolk Metropolitan Division jobs have declined by 3.6% since the start of the pandemic in February 2020, though office-using jobs increased by 8.4% from May 2020 to May 2021. This underscores the discrepancy in job losses between office-using and other employment sectors of the Long Island economy.

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



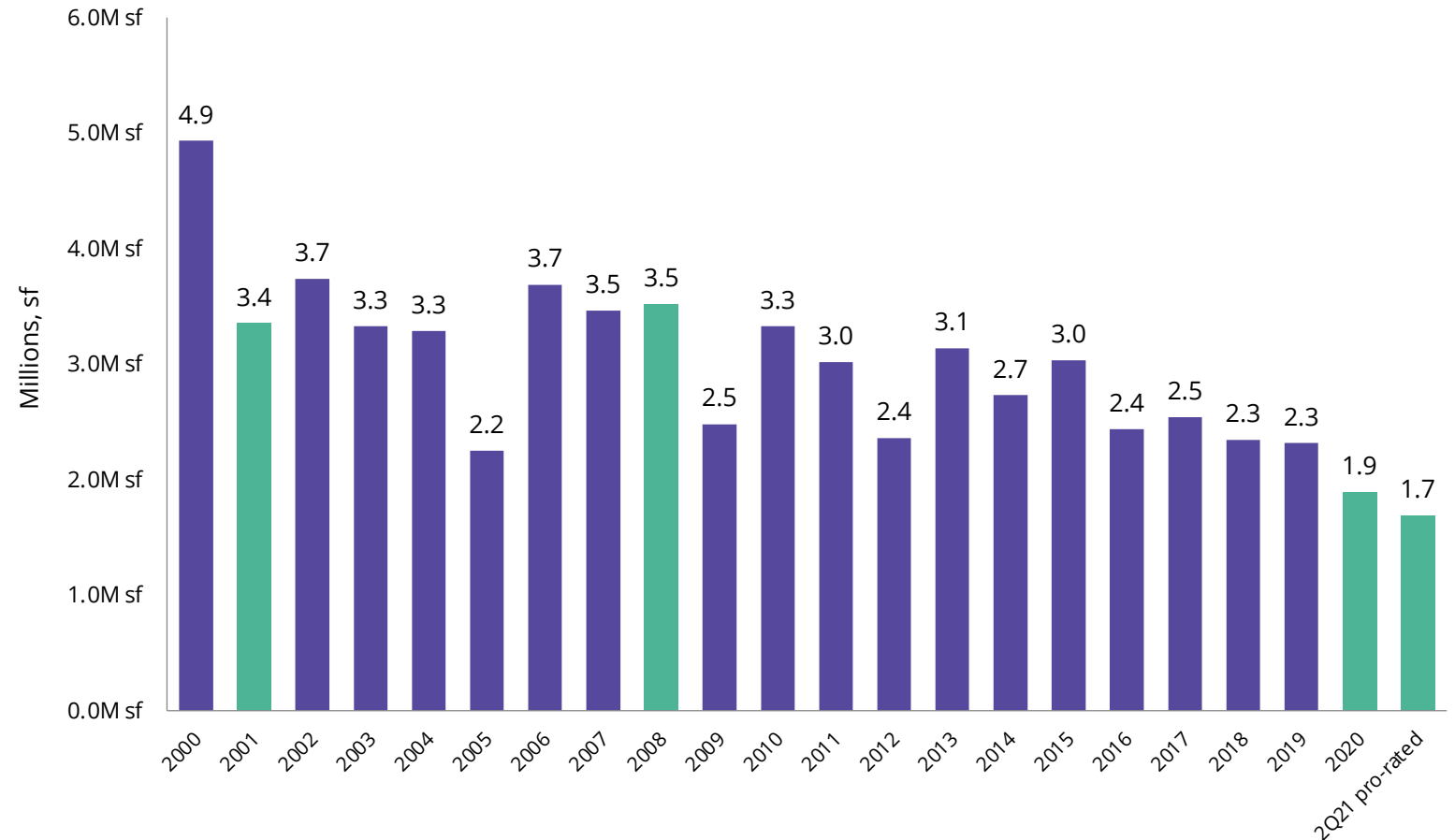
Note: Not seasonally adjusted data. Metropolitan division.
Source: Bureau of Labor Statistics

Office leasing activity

-41.6%

**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.



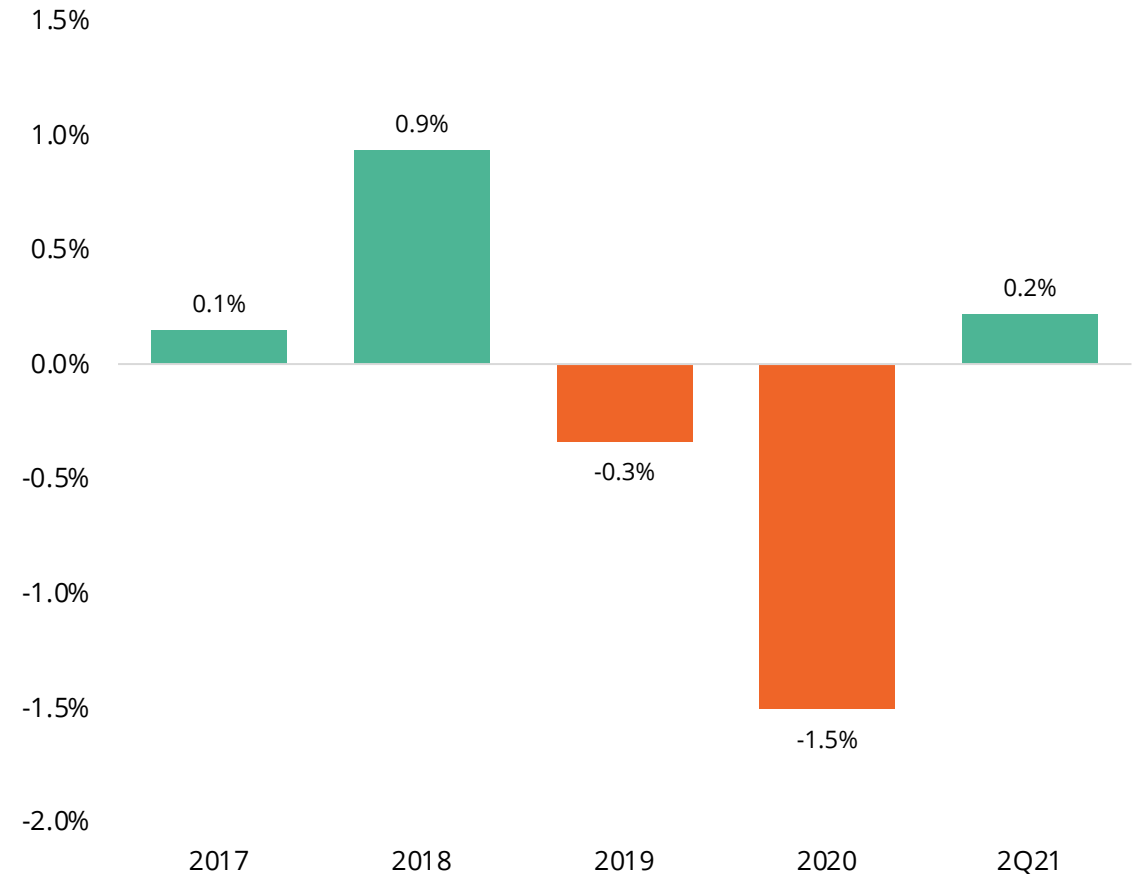
Source: AVANT by Avison Young

Absorption

-1.3%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to Q2 2021 totaled almost 900,000 sf, accounting for 1.3% of the existing stock. However, absorption the Long Island market net absorption increased by nearly 154,000 sf to date in 2021.



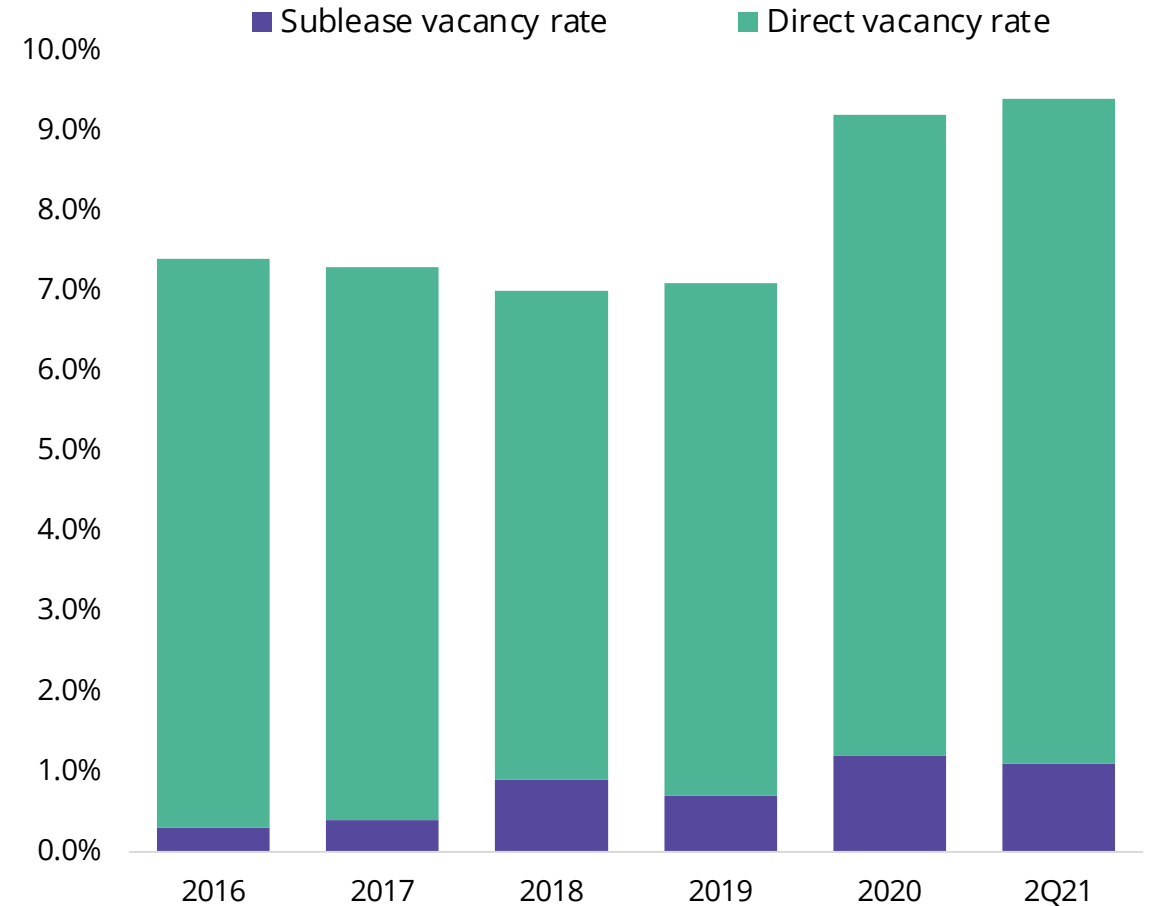
Source: AVANT by Avison Young

Vacancy rate

9.4%

Long Island vacancy as of Q2 2021

The Q2 2021 vacancy rate remained elevated in terms of sublease (1.1%), direct (8.3%) and total (9.4%) percentages. The total vacancy rate represents a 20bp increase from the year-end 2020 rate and a 230bp increase from the year-end 2019 rate.



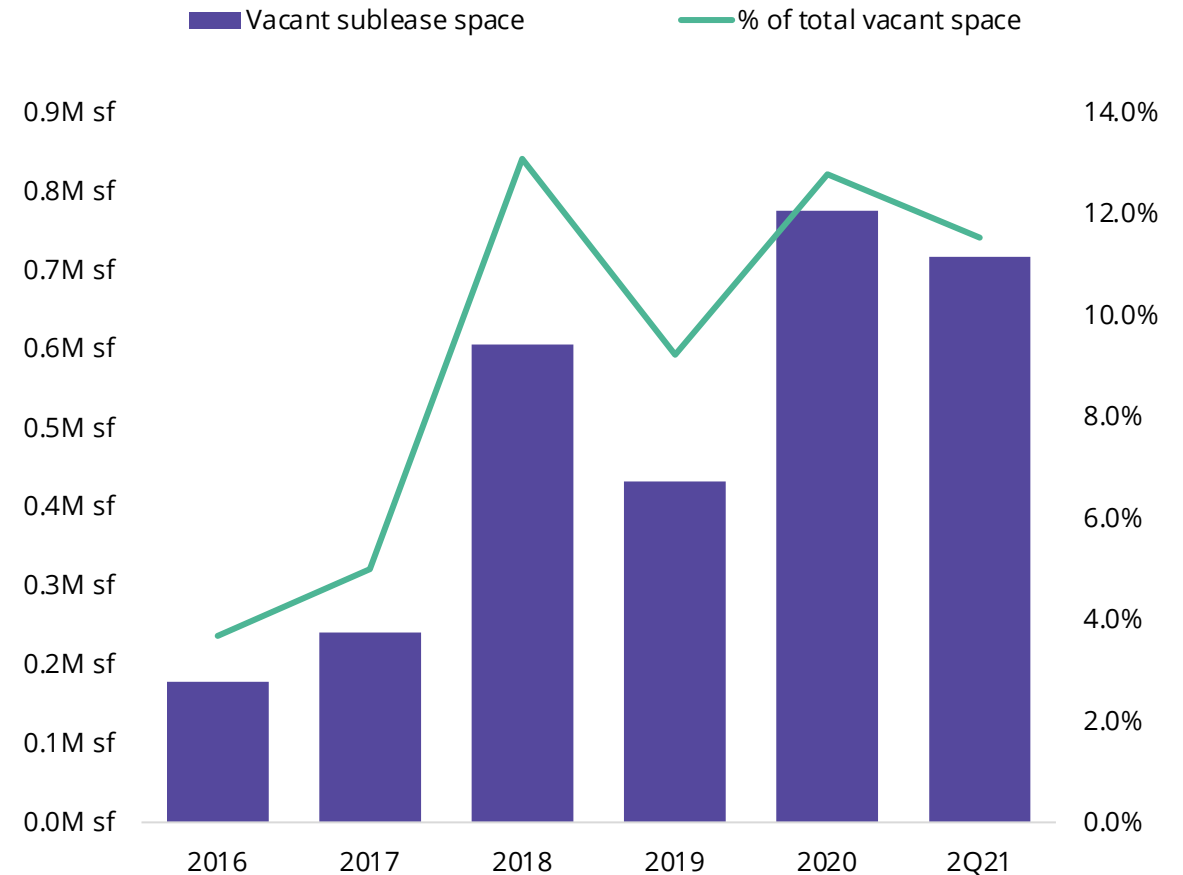
Source: AVANT by Avison Young

Vacant sublease space

717,000 sf

Total vacant sublease space

The share of sublease-to-total vacant space of 11.5% has moderated since the end of 2020 (12.8%) but remains high by 2016 to 2019 levels (average of 7.7%). A supply-and-demand imbalance in favor of tenants is likely to persist until this rate decreases.



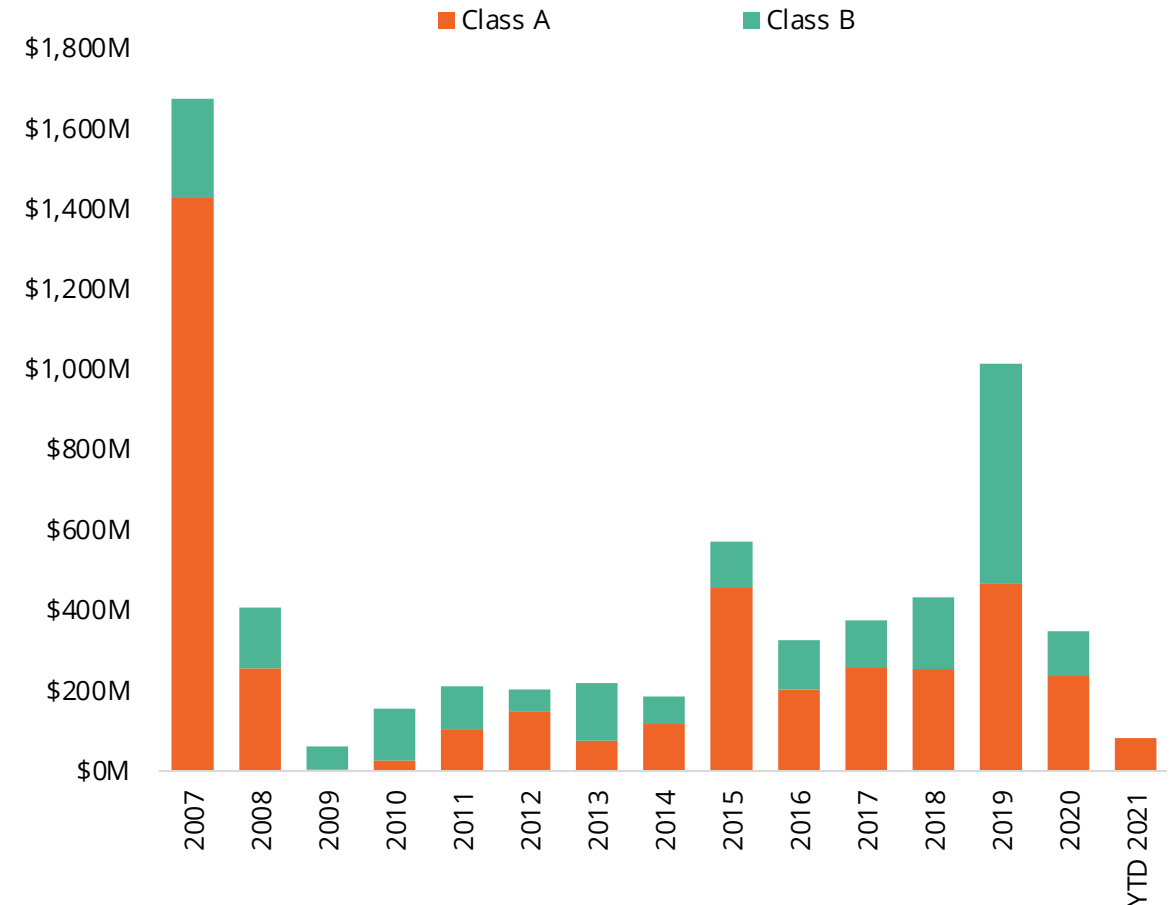
Source: AVANT by Avison Young

Office investment dollar volume

\$435M

Long Island office dollar volume 2020 to present

Office sales activity has temporarily paused during the pandemic, decreasing by an annualized rate of 50.4% compared with the prior five-year average dollar volume.



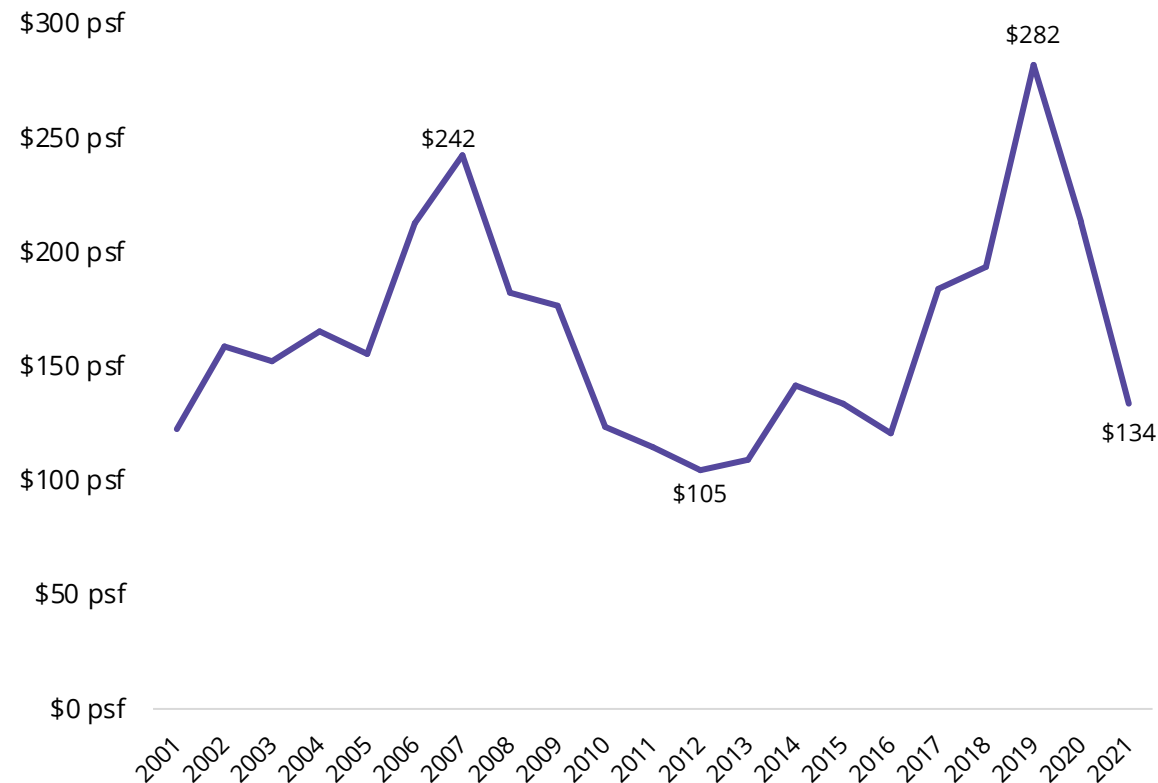
Source: AVANT by Avison Young, RCA

Office asset pricing

-52.6%

Long Island office pricing from 2019 to present

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$282 psf in 2019 to \$213 psf in 2020. Asset pricing has trended further downward in recent months (\$134 psf), though this has been partially influenced by the slowdown in transaction volume.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- The **office market is poised to continue to struggle** as supply additions are likely to surpass leasing activity.
- More employees are likely to **return to the office** now that more than half of the Long Island populace is fully vaccinated. This belief is supported by the increase in office-using jobs from May 2020 to May 2021.
- COVID-19 complications have caused office leasing to reach a recent historic low, although **demand is likely to incrementally increase** in the next few quarters as tenants cement their long-term occupancy strategies and begin to navigate the market with more conviction.



Get in touch



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Let's talk

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