

3Q23

Long Island Office Market Overview

NEWMARK

Market Observations

Economy

- The Long Island labor market has exhibited resiliency, with the unemployment rate consistently tracking below the national average. Challenges linger as unemployment rates increased during this period of continued high inflation and interest rates.
- The government, business and professional, and other services industries emerged as the frontrunners in regional annual job growth. Conversely, the construction sector witnessed the most notable decline in annual employment growth.
- In the third quarter of 2023, the region saw the highest number of office using jobs since the global financial crisis. Despite a slight increase in unemployment rates since the beginning of 2023, rates have realigned with pre-pandemic levels.

Major Transactions

- The Social Services Department signed the largest lease of the quarter, signing a 20-year lease for 82,200 square feet at 3085 Veterans Memorial Highway in Suffolk County.
- Third quarter 2023 leasing recorded over 470,000 square feet of activity, an increase of 9.1% from one year-ago levels.
- Recording 242,104 square feet of activity, Nassau County accounted for 51.4% of leasing activity in the third quarter.

Leasing Market Fundamentals

- Following COVID-19, the Long Island region continued to see the trend of rising vacancy rates in the third quarter of 2023. Negative net absorption persisted through the quarter as there is limited demand for suburban office markets.
- While sublease availability continued to rise, the overall availability in the Long Island market decreased as direct space available fell 168,320 square feet in the third quarter of 2023. Despite this, vacancy still rose to 12.3% in the third quarter, up 0.8% from the third quarter of 2022.
- While the average asking rent of Class A office space slightly declined in the third quarter of 2023, the gap between Class A and B asking rents is still considerably larger than 2022.

Outlook

- With high inflation and historic treasury rates, uncertainty persists in the macroeconomic economy. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Asking rates will continue to remain high as class A properties make up 52.4% of availabilities. Properties under construction remain fully available, and the construction pipeline remains robust awaiting preleasing.
- Two properties in Suffolk totaling 120,700 square feet are expected to deliver in the first half of 2024. Four properties totaling 384,218 square feet are in the pipeline, all located in Suffolk County and waiting anchor tenants.

1. Economy
2. Leasing Market Fundamentals

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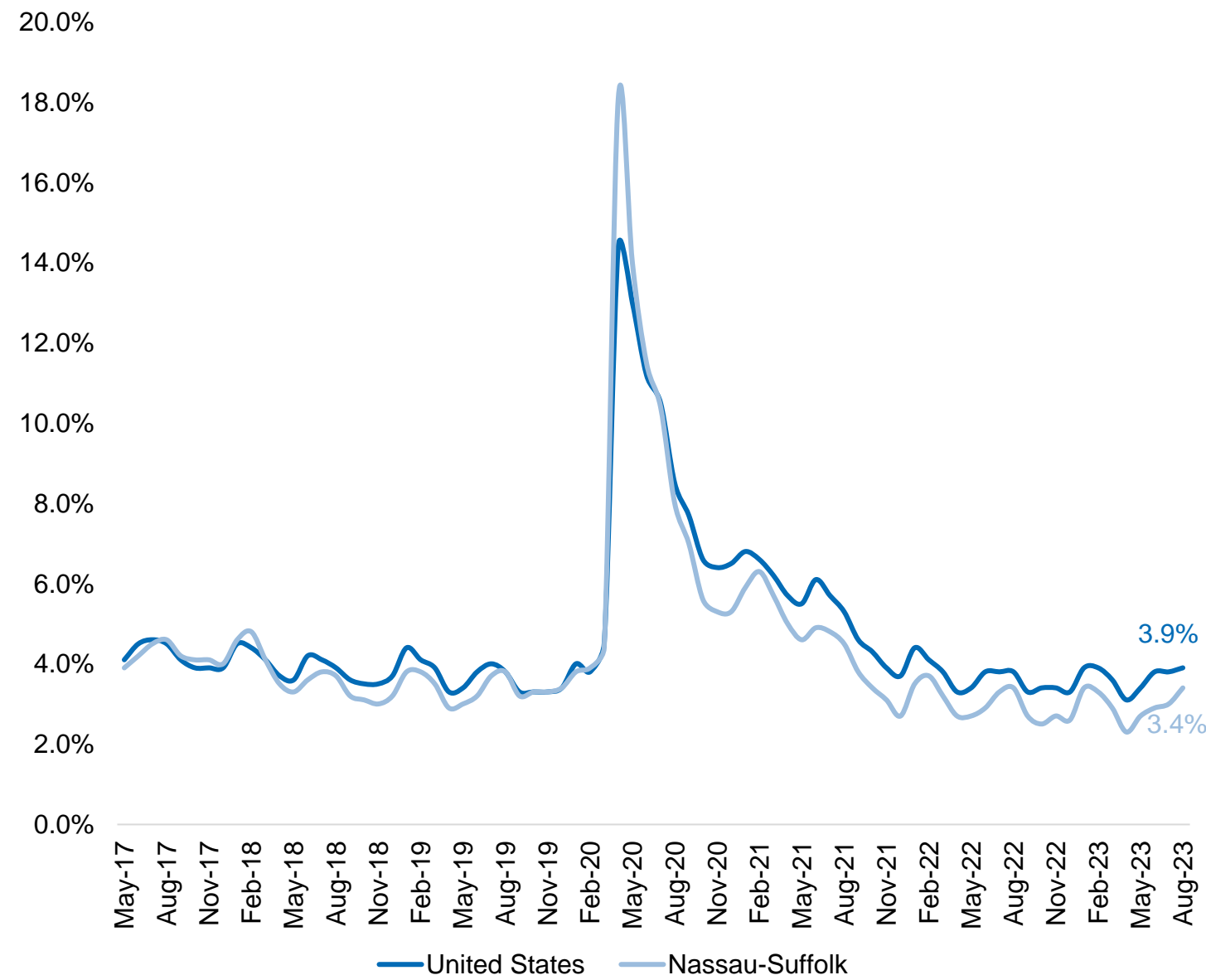
Economy



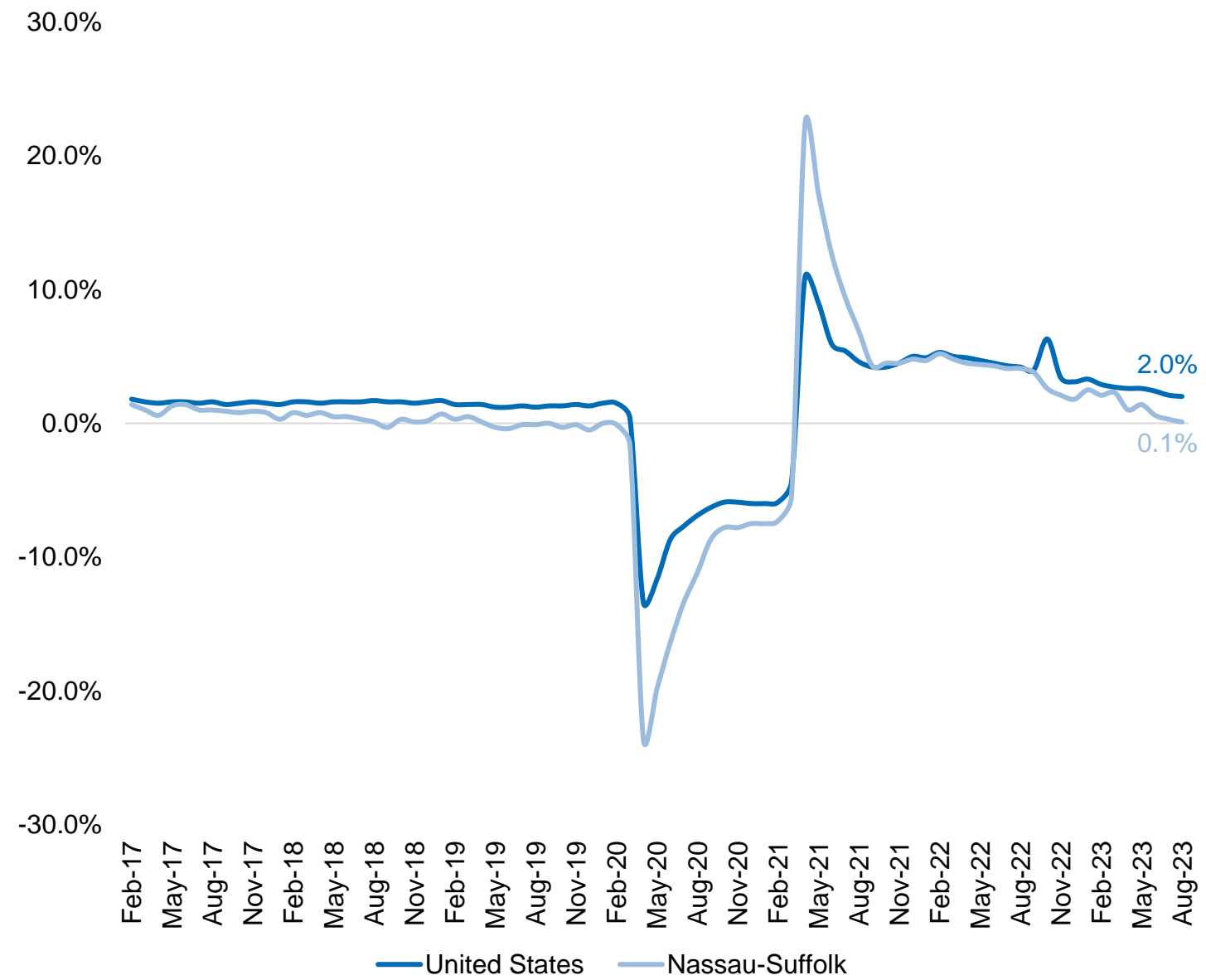
Metro Employment Trends Signal A Slowing Economy

The Long Island labor market has exhibited resiliency, with the unemployment rate consistently tracking below the national average. However, headwinds linger as unemployment rates increased during this period of continued high inflation and interest rates.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



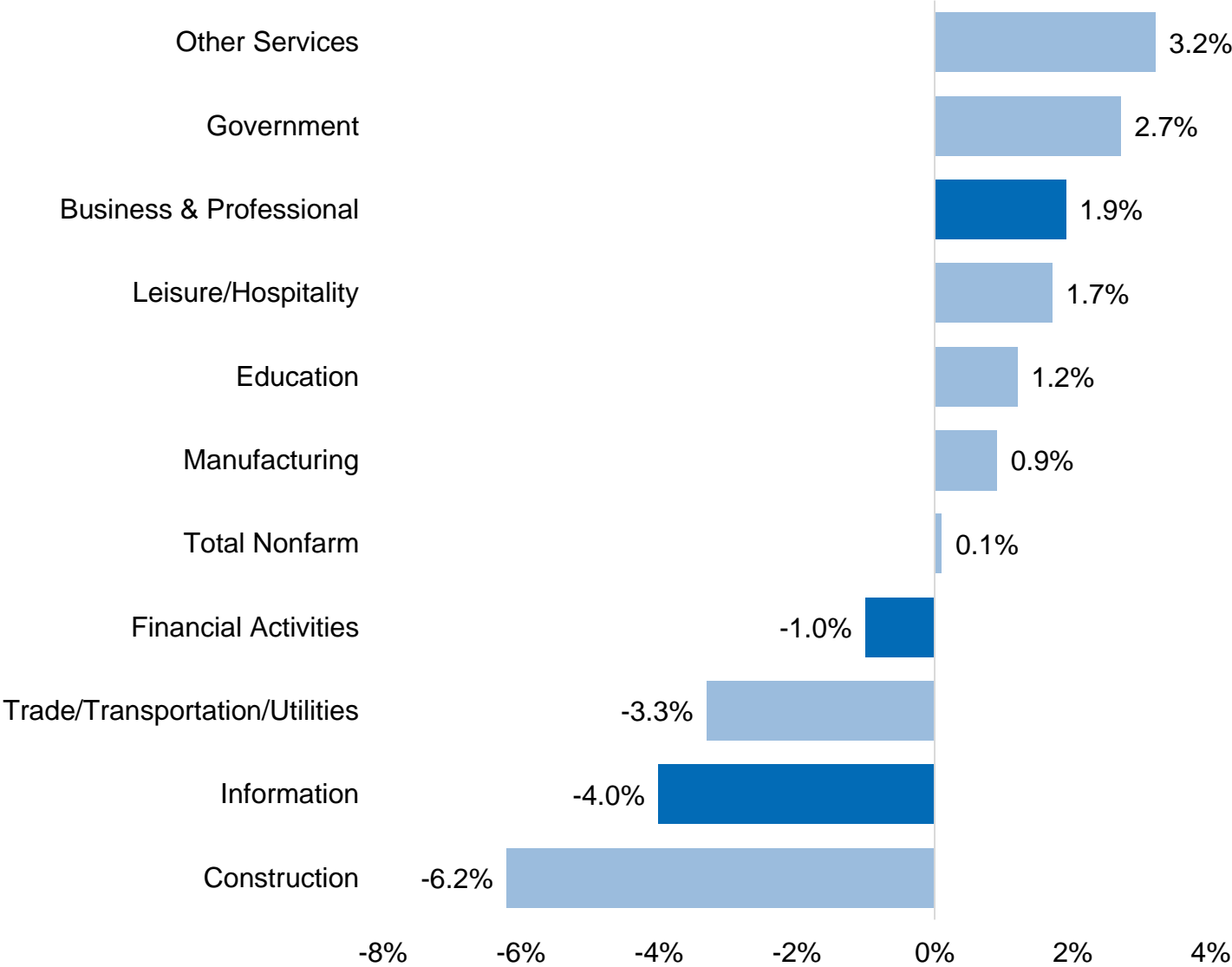
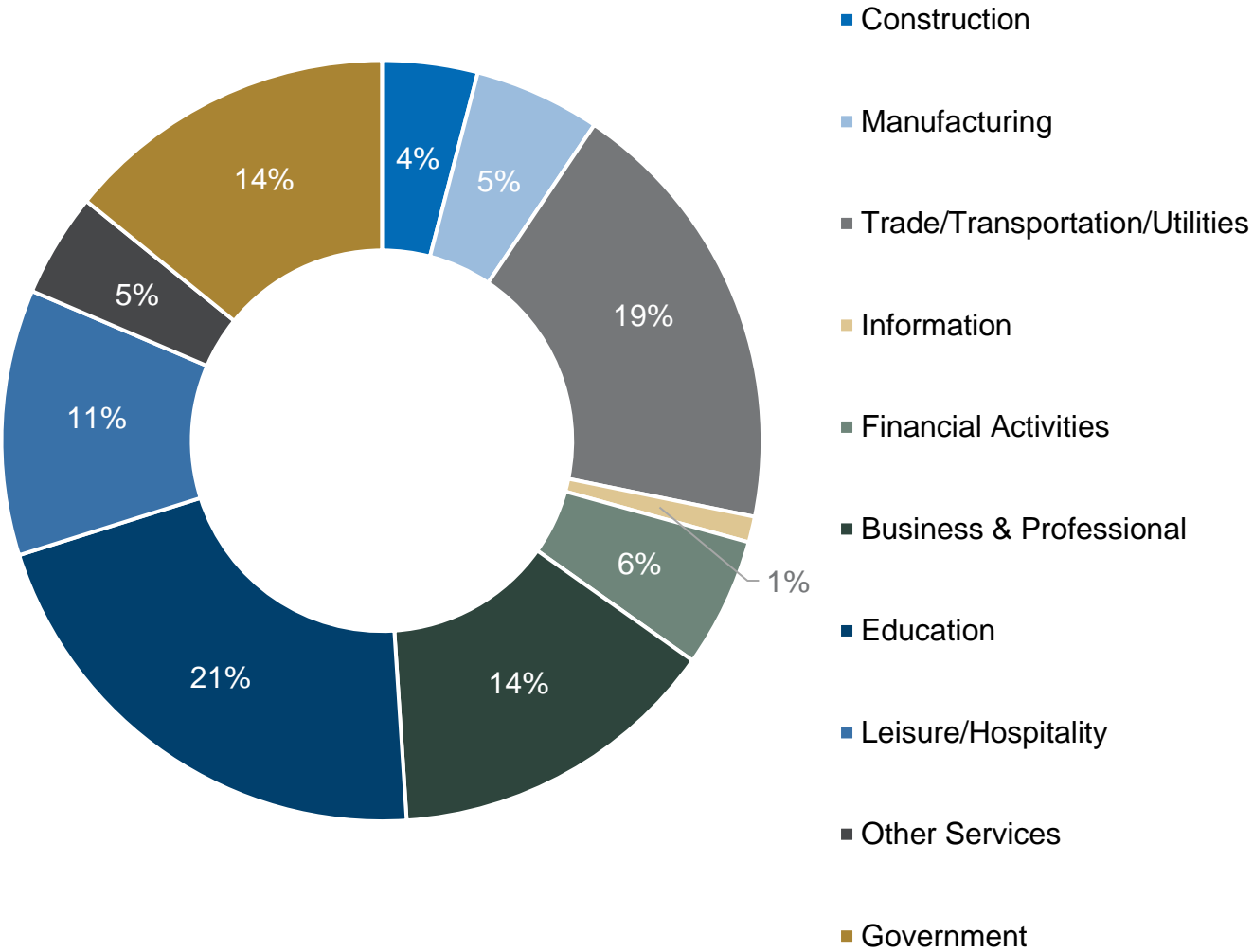
Source: U.S. Bureau of Labor Statistics, Nassau-Suffolk

Job Growth Driven by Office Using Sectors

Government, business and professional services and the industries of other services emerged as the frontrunners in regional annual job growth. Conversely, the construction sector witnessed a notable decline in annual employment growth, potentially attributed to the high inflationary and interest rate environment leading to hesitancy in construction activities.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

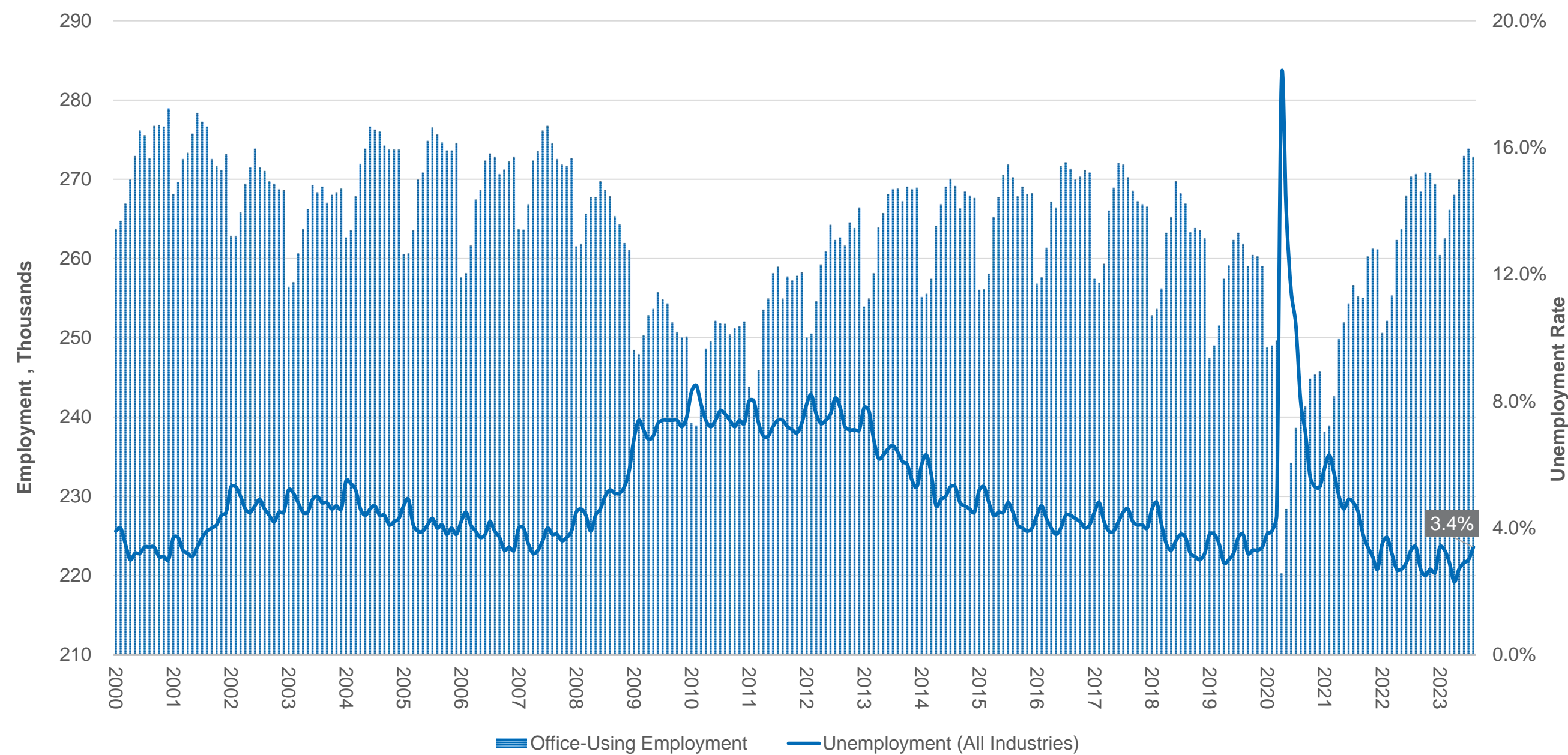


Source: U.S. Bureau of Labor Statistics, Nassau-Suffolk

Overall Office-Using Employment Exceeds Pre-Pandemic Levels

In the third quarter of 2023, the region saw the highest number of office using jobs since the global financial crisis. Despite a slight increase in unemployment rates since the beginning of 2023, rates have realigned with pre-pandemic levels.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Nassau-Suffolk
Note: August 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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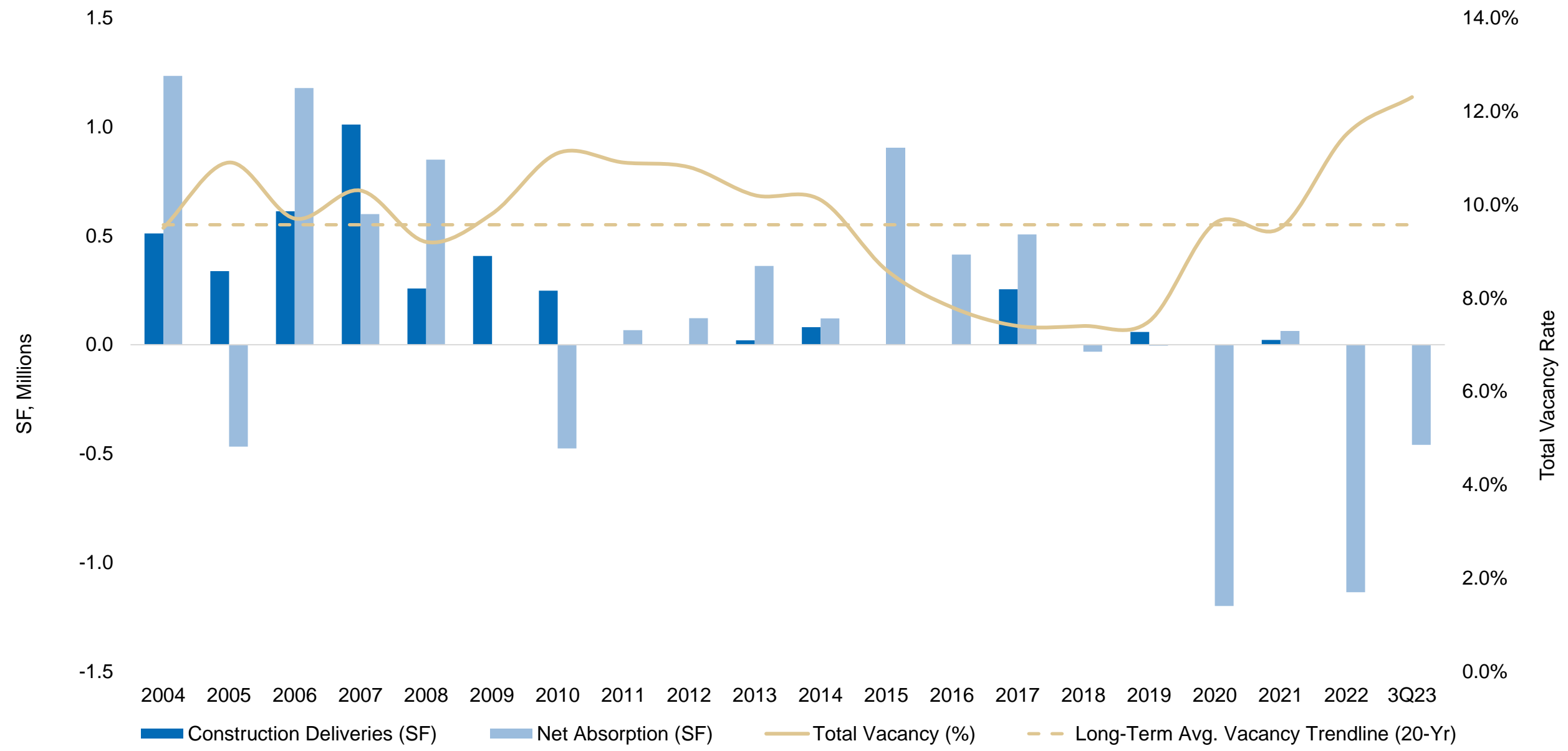
Leasing Market Fundamentals



Vacancy Rises as Net Absorption Remains Negative

Following COVID-19, the Long Island region continued to see the trend of rising vacancy rates in the third quarter of 2023. Negative net absorption persisted as demand remains limited in suburban office markets.

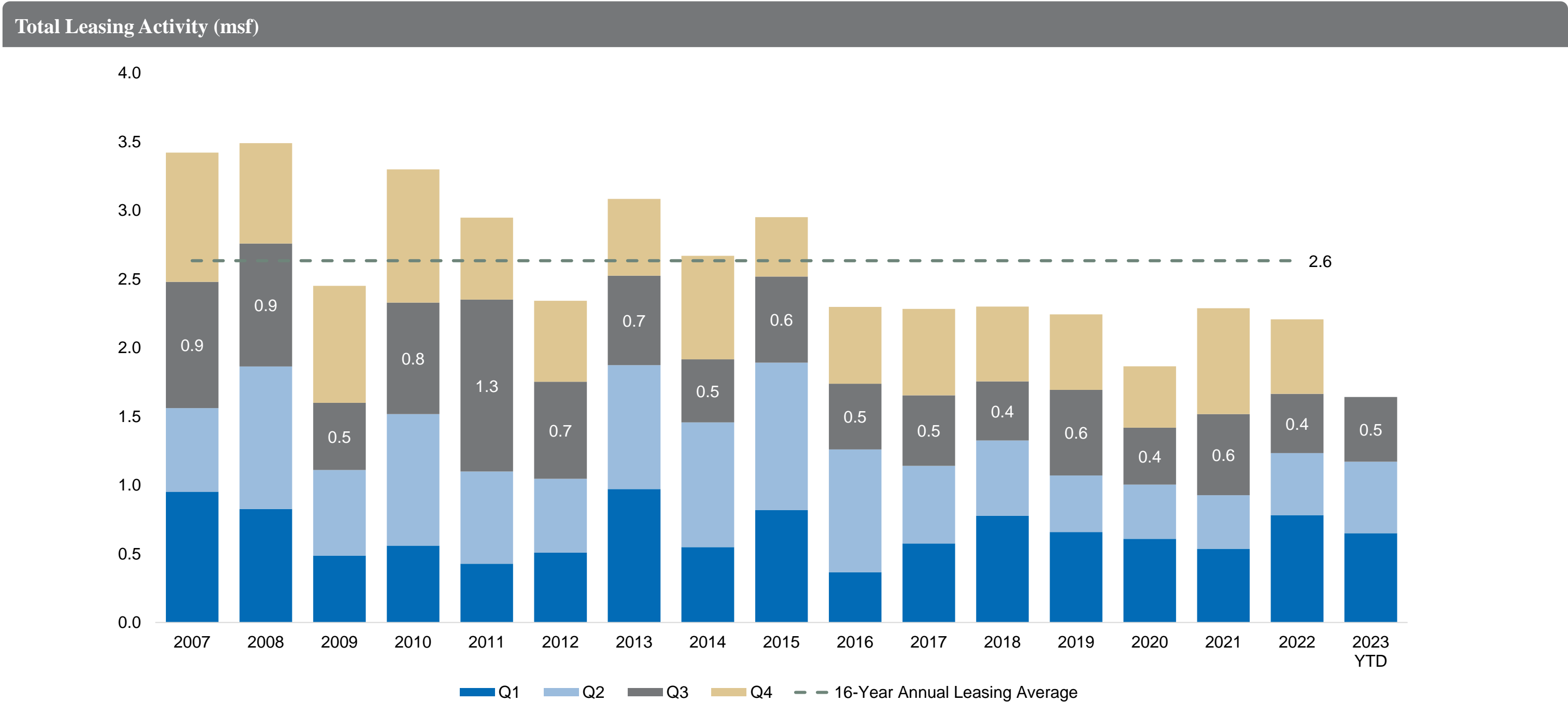
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Leasing Activity Remains Consistent

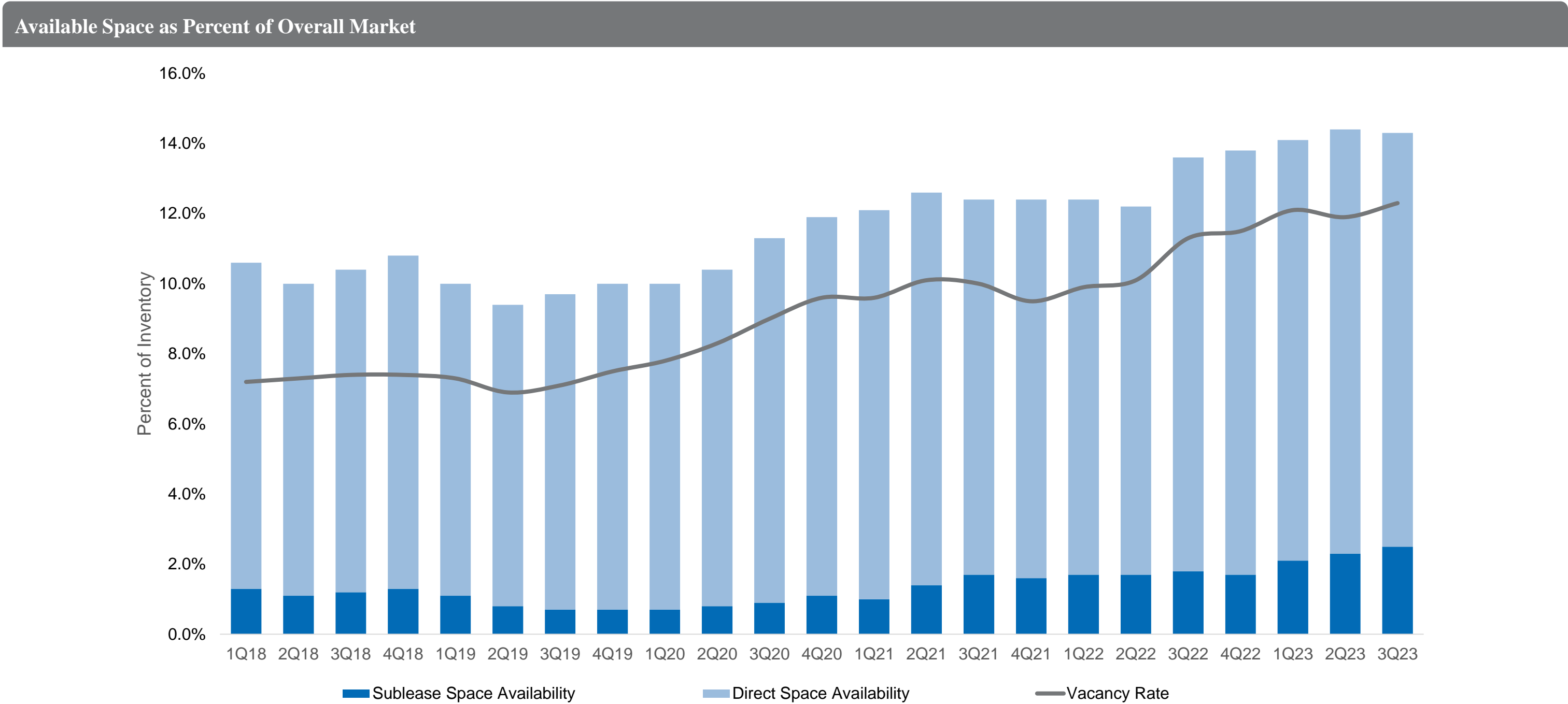
Leasing activity through the third quarter of 2023 reached 1.64 million square feet, a mere 1.4% decrease compared to the output from one year ago. The largest deal that closed exceeded 80,000 square feet with the Social Services Department signing a lease in Suffolk County.



Source: Newmark Research, CoStar

Vacancy Rate Increases Despite Slight Decline in Availability

Direct available space decreased 168,320 square feet in the third quarter of 2023. While the sublease availability continued to rise, this drop in direct space available resulted in a slight decrease to the overall availability in the Long Island market. Despite this, vacancy still rose to 12.3% in the third quarter, up 0.8% from the third quarter of 2022.

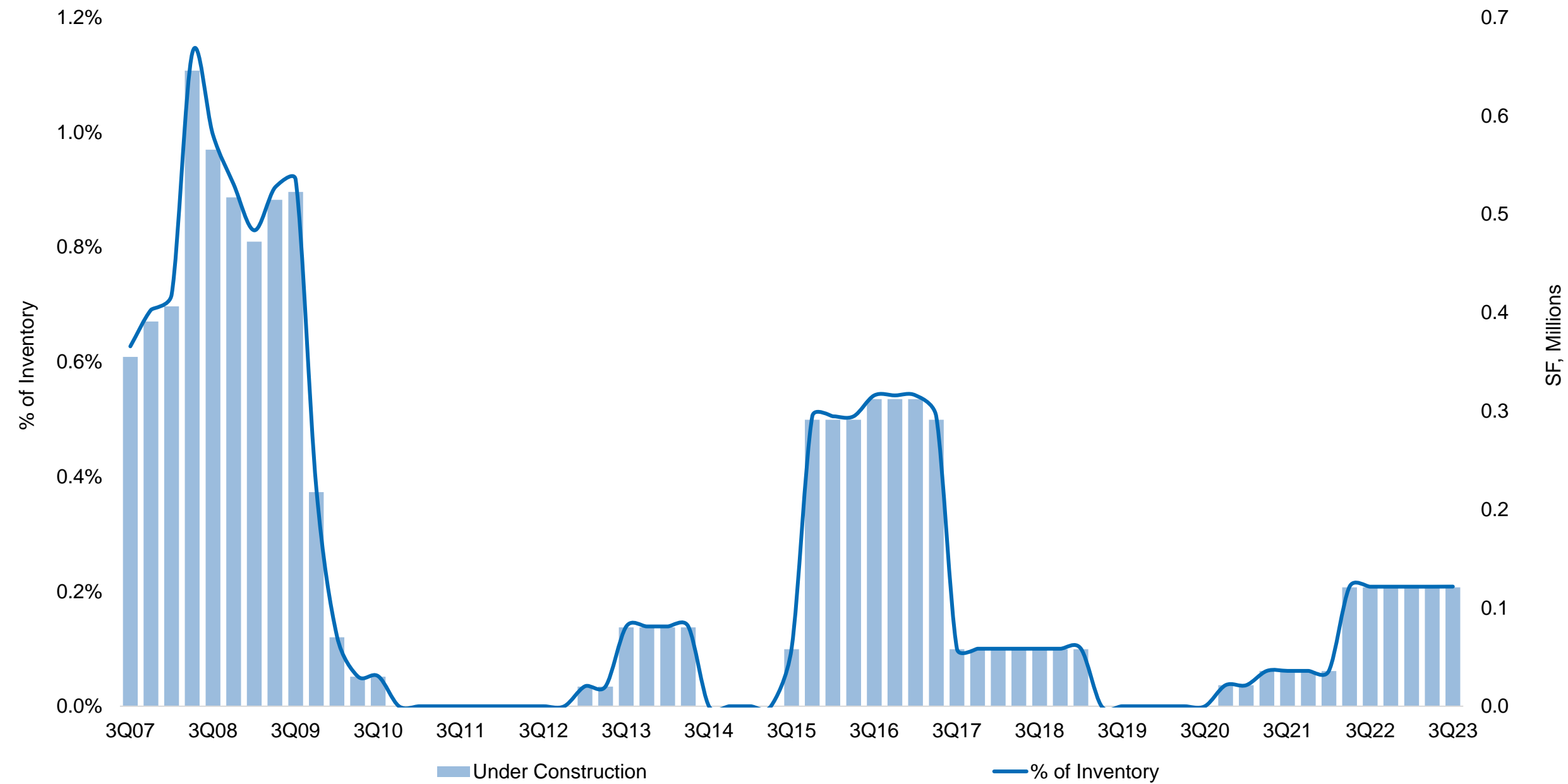


Source: Newmark Research, CoStar

Construction Continues With Deliveries Expected Next Year

Suffolk County leads Long Island construction activity with two properties totaling 120,700 square feet expecting to deliver in the first half of 2024. Four properties totaling 384,218 square feet are in the pipeline, all located in Suffolk County and searching for anchor tenants.

Office Under Construction and % of Inventory

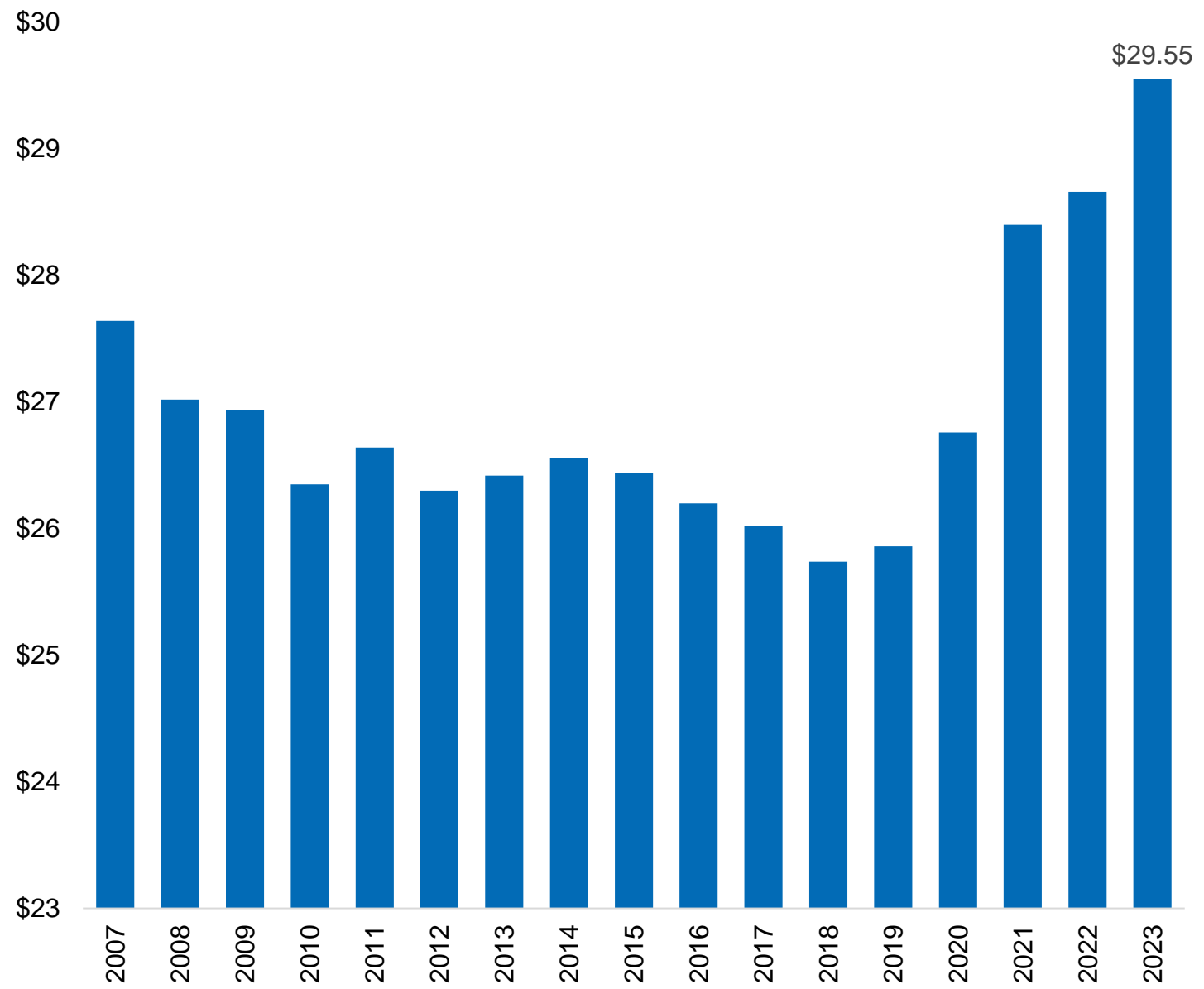


Source: Newmark Research, CoStar

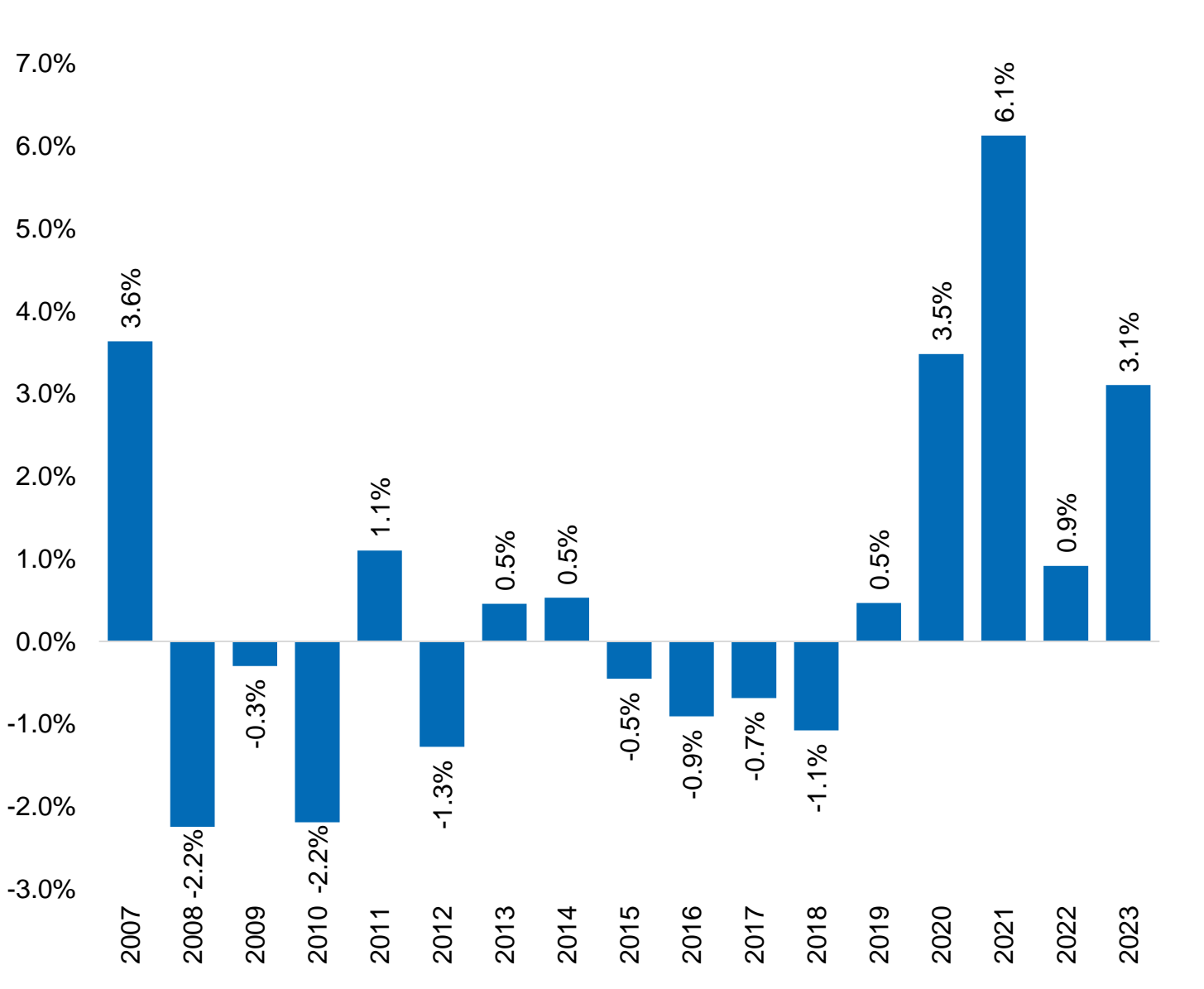
Rents Continue to Climb

The increase of overall asking rents continues to be fueled by the addition of high-priced spaces to the market. Given the availability of under construction properties and a robust construction pipeline, it is expected that rents will sustain their current trend.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

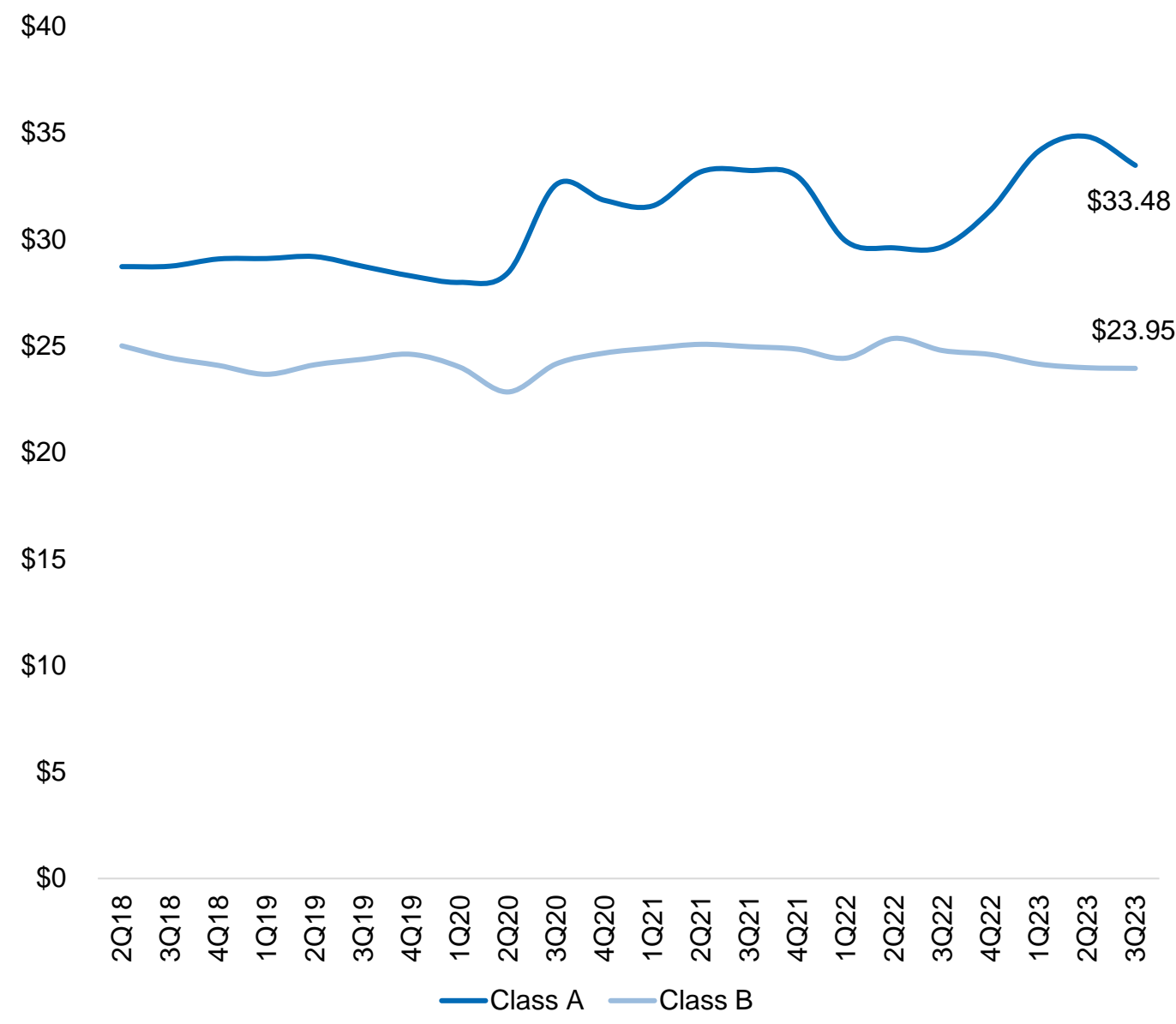


Source: Newmark Research, CoStar

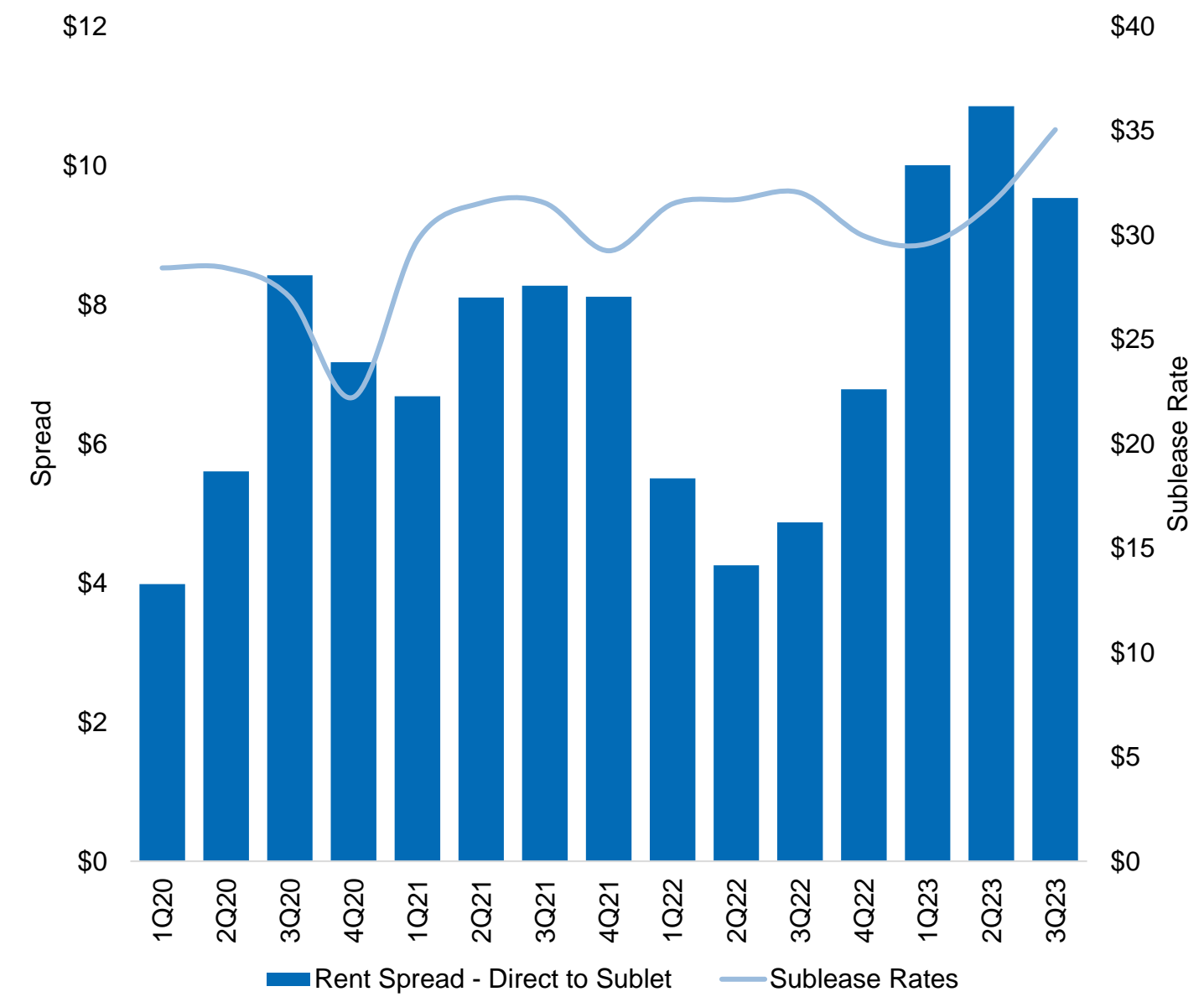
Asking Rent Spread Lessons

While the average asking rent of Class A office space slightly declined in the third quarter of 2023, the gap between Class A and B asking rents is still considerably larger than 2022. Sublease rates continue to be the primary driver of the asking rent gap, as low-priced sublease spaces continue to be added in Class A.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Remains Steady Through the Third Quarter

Third quarter 2023 leasing recorded over 470,000 square feet of activity, an increase of 9.1% from one year ago, totaling 1.6 million square feet, year-to-date.

Notable 3Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Social Services Department	3085 Veterans Memorial Highway	Suffolk County	Direct Renewal	82,200
Social Services Department signed a twenty-year renewal, taking the entire 82,200 square feet available at 3085 Veterans Memorial Highway.				
NYS Workers Compensation Board	2929 Expressway Drive North	Suffolk County	Direct Lease	27,405
NYS Workers Compensation Board took 27,405 square feet on the second floor at 2929 Expressway Drive North, signing a ten-year lease term.				
Feldman Law	1400 Old Country Road	Nassau County	Direct Lease	12,807
Law firm Feldman Law signed a ten-year lease for 12,807 square feet on the partial second floor at 1400 Old Country Road.				
Publications Elite Company	88 Froehlich Farm Boulevard	Nassau County	Direct Lease	6,500
Legal publication business Publications Elite Company signed a lease for 6,500 square feet on the partial fourth floor at 88 Froehlich Farm Boulevard, with a planned January 2024 relocation date.				
Amedisys	1 Old Country Road	Nassau County	Direct Lease	4,550
Health care company Amedisys signed a ten-year lease at 1 Old Country Road for 4,550 square feet.				

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