LONG ISLAND

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EXECUTIVE SUMMARY

- Office using companies continue to struggle to understand future space needs in order to adhere to corporate mandates that can cut occupancy costs by optimising space utilization.
- Industrial users are expected to have limited space options due to a decreasing inventory, while simultaneously facing continued rising rent and acquisition costs.
- Retailers occupying traditional "brick and mortar" facilities will continue to fight the tide of online e-commerce competition.
- Investment sales activity remains strong, but investors are expected to exercise caution in acquisition strategies until geopolitical and financial issues resolve.

Nationally, the November job market report indicated payrolls surged by 266,000 and the unemployment rate fell to 3.5%. The unemployment rate now stands at a 50-year low and wages continue to increase. In spite of these strong performance statistics, as we face the start of the 2020 year, there is still much uncertainty in the local economy fuelled by the geo-political events throughout the U.S. and the world. Even with a strong job market and low interest rates, it is expected that many companies will be cautious in their growth strategies until events stabilize.

In spite of the current strong economic conditions, the outlook for the office market still has some headwinds. Office using companies are focused on workplace solutions which will lead to an optimization of their footprint. This strategy, in many cases, results in a downsizing of office space without any workforce cuts. This trend may lead to lower net absorption in 2020 as leases expire and companies restructure their space programming needs.

In the fourth quarter of 2019, the overall vacancy rate stands at 10% and is expected to drop slightly in the first half of the year, followed by a slight increase after that. Construction costs continue to rise rapidly due to the shortage of labor and increases in wages and materials, resulting in tenant improvement allowances that are short of total construction costs.

Class A buildings are seeing the most activity with dramatically lower vacancy rates then the overall market. As a result, incentives are expected to decline and rents may increase over the next 6-12 months as space in high-quality buildings diminish.

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↓↓	↑
Vacant Space	↑	↑	→
Construction Levels	→	↓↓↓	↓↓↓
Leasing Volume	→	↓	↓
Investment Volume	→	→	→

Industrial continues to be the best performing asset class with vacancy rates approaching all-time lows. In the fourth quarter of 2019, vacancy rates for industrial buildings stands just over 5% and the available space is predominantly in lower ceiling, older, and obsolete buildings. This has been driven by several factors, most notably the expansion of e-commerce which is driving the need for regional distribution centers to meet the demand of retailers; both on-line and traditional "brick and mortar". Amazon continues its expansion on Long Island in the distribution side of the business and other retailers are following with smaller regional distribution nodes.

Investment sales continue to be active due to the continued low interest rate environment and the abundance of available of capital looking for a place to be deployed. Capitalization rates remain at aggressively low levels and investors are constantly searching for good product with reasonable return rates; a task which isn't easy these days. Despite this, there are investors in the market who may be cautious in their acquisition strategy in 2020 until some clarity takes place relative to the impact of the political climate, specifically the U.S. Presidential election, as well as the ongoing trade issues. In the residential and multi-family property sector, although demand remains high, it is expected that investment in this sector will continue to be negatively impacted due to recent regulatory changes enacted throughout New York State.

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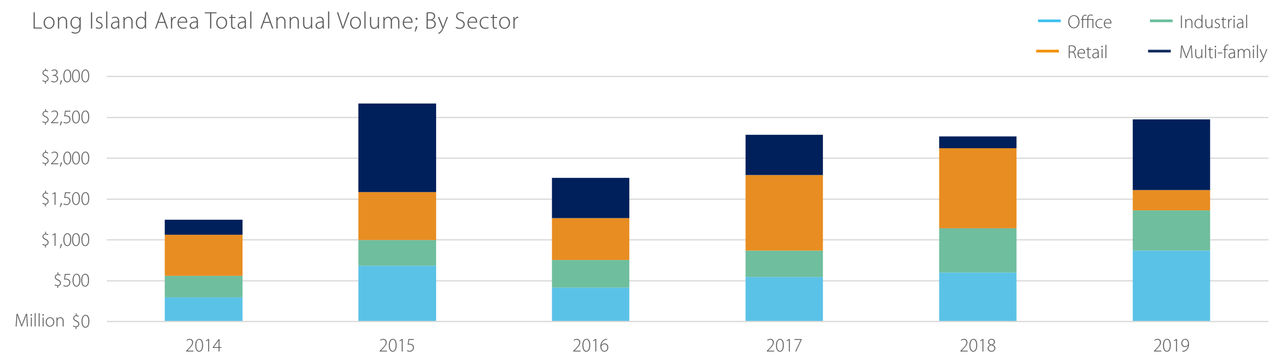
In the retail market, the sector continues to feel the impact of online shopping and a shift from shopping malls to downtown areas. The most active retailers continue to be local service oriented retailers who are "immune" to the online competition. Rents in regional centers will continue to decline until suitable replacement industries can be found to fill the void left by traditional retailers. To date, there has been a trend of multi-specialty medical practices taking space vacated by drug stores and other mid-size retail users. One bright spot is the recent activity by Lidl, an organic supermarket retail food store, who has opened three new stores on Long Island.

HISTORIC INVESTMENT VOLUME

Long Island Area Total Annual Volume; By Sector



Source: Real Capital Analytics