

Westchester County Office Market

Despite Slowdown in Demand, Rental Rates on the Rise

After finishing 2021 on stable footing, office market fundamentals for Westchester County retracted during the first quarter of 2022. Total net absorption ended with negative 234,407 square feet, resulting from a general slowdown in demand and new space coming online in both the East I-287 and White Plains Central Business District markets. A total of 320,000 square feet of leasing activity was recorded this quarter, a significant decrease of 41.3% from the previous quarter and 38.2% from the prior year. This level ended well below the historical average of 435,000 square feet for first-quarter periods. The county's overall availability rate moved up to 25.8%, from 24.7% at the end of 2021 and from 25.1% a year ago, but asking rents remained stable at \$28.52/SF, slightly increased from \$28.00/SF in the previous quarter and from \$27.96/SF a year ago.

Despite Lackluster Leasing, Touring Activity Signals Optimism

Leasing activity in the East I-287 market totaled 170,000 square feet in the first quarter of 2022, decreasing by 42.2% from the previous quarter and by 31.6% from the prior year. The largest lease transaction occurred at 450 Mamaroneck Avenue, where BOCES renewed for 58,459 square feet. But despite the slowdown in leasing, touring activity picked up significantly towards the end of the quarter, with active tenants in the market with requirements in the 20,000-square-foot to 50,000-square-foot range.

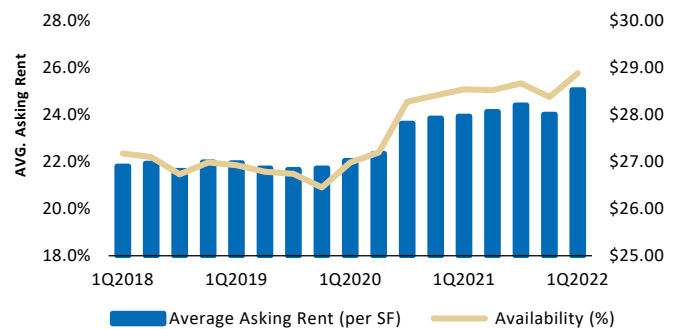
Availabilities in this market totaled 1.8 million square feet, for an overall availability rate of 20.5%, down from 21.2% a year ago. There were a few blocks of space that came online this quarter, particularly in Harrison, that pushed the availability rate higher from last quarter's rate of 18.9%. These blocks included a 30,000 square-foot space Transamerica Financial gave back at 440 Mamaroneck Avenue; Carr Workplaces's 24,000-square-foot space at 600 Mamaroneck Avenue; a 17,000-square-foot space Boces gave back at 450 Mamaroneck Avenue and 15,000 square feet from Keevily Spero Whitelaw at 500 Mamaroneck Avenue. With the exception of Carr Workplaces, which closed up shop, all the above tenants renewed in less space. Despite those increases, the direct Class A vacancy rate in this market remains significantly lower than the overall market, at 15.0%.

Current Conditions

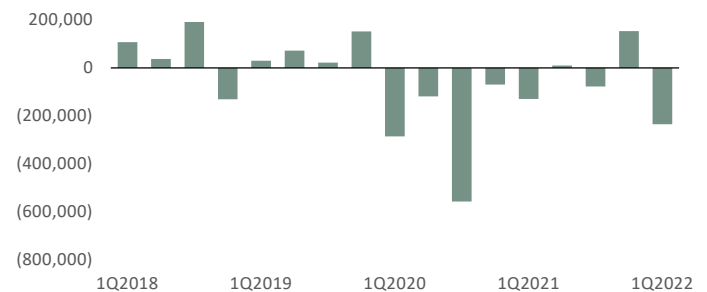
- A total of 320,000 square feet of leasing was recorded this quarter, a significant decrease of 41.3% from the previous quarter and 38.2% from the prior year.
- The county's overall availability rate moved up to 25.8%, from 24.7% at the end of 2021 and from 25.1% a year ago, but asking rents remained stable at \$28.52/SF
- In the past decade, nearly 2.3 million square feet of office inventory has been removed from statistics in Westchester County due to adaptive reuse

Market Analysis

ASKING RENT AND AVAILABILITY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	26.1M	26.1M	26.1M	↔
Availability Rate	25.8%	24.7%	25.0%	↔
Net Absorption (SF)	(234,407)	153,750	10,168	↔
Average Asking Rent/SF	\$28.52	\$28.00	\$28.06	↔
Under Construction (SF)	0	0	0	↓

RESEARCH Q1 2022

Underused Office Complex in the East I-287 Corridor Gets New Life

The highlight of the quarter came from a major sale transaction in the Eastern market, where NY-Presbyterian Hospital acquired 1111 and 1129 Westchester Avenue in White Plains for \$83.5 million, or \$228/SF. The 360,000-square-foot, two-building office complex served as PepsiCo's headquarters for nearly 10 years. The new owner will take full occupancy at the site with plans to open a state-of-the-art, multi-specialty ambulatory care facility. The change in use resulted in the removal of the buildings from the market's statistical inventory.

West I-287 Market Sees Largest Year-over-Year Increase in Availability

Overall availability in the Class A Western market climbed to 31.9%, 5.4 percentage points higher than the 26.6% rate recorded a year ago. With no new significant availabilities coming online this quarter, the rate came down from the 32.1% level seen at the end of 2021. Since the start of 2020, this market has seen steady increases in availability, but Class B rates continued a downward trend, ending at 10.2%, down from 13.6% last year. The Class A average asking rent in this market remained nearly unchanged from both the prior year and from the previous quarter, averaging \$27.16/SF.

Leasing Activity Falls as Rental Rates Rise in Downtown White Plains

Conditions in the White Plains Central Business District market were no different this quarter, with a slowdown in leasing velocity and increase in availability rates. Close to 90,000 square feet of leasing was transacted in this market, down 43.5% from the previous quarter. This level ended 27.0% below the five-year first-quarter historical average of 120,000 square feet for this market. Two blocks of space totaling 40,000 square feet came online this quarter at 11 Martine Avenue, as well as a 26,500-square-foot space from Greenberg Traurig at 445 Hamilton Avenue. This led to an increase of 1.1 and 2.0 percentage points in availability over the past year and the previous quarter, respectively, while net absorption finished with negative 81,000 square feet. Similar to the East I-287 Corridor, the highlight for this market during the first quarter of 2022 came from a major sale transaction.

Argent Ventures acquired White Plains Plaza from Ivy Equities for \$105 million, or \$149.0/SF.

Despite a slowdown in leasing, rental rates in Downtown White Plains rose by 7.0% over the past year, from \$36.14/SF to \$38.66/SF. This was mainly due to the addition of a high-end, 20,000-square-foot, penthouse-level space at The Top of the Ritz quoted at \$80.00/SF. Additionally, Argent Ventures raised the asking rents for its newly acquired buildings at White Plains Plaza, from \$35.00/SF to \$38.00/SF. The same owner, Argent Ventures, also raised the asking rents for 44 South Broadway to \$38.00/SF.

Office Stock Keeps Shrinking, as Adaptive Reuse Offers Viable Solution for High Vacancy

To help combat declining occupancy rates, landlords continue to explore building repurposing, particularly from commercial to residential or medical uses. In the past decade, nearly 2.3 million square feet of office inventory has been removed from statistics in Westchester County due to adaptive reuse. From this total, 68.0%, or 1.5 million square feet, was repurposed in the East I-287 market. With several additional office buildings that developers might view as candidates for conversion, the inventory in this market is expected to continue shrinking, thus reducing the overall vacancy rates.

Outlook

The nationwide inflation and supply chain issues have trickled down into office rents in some cases as landlords struggle to contend with significantly higher costs to build space and operate their buildings due to increases in materials and labor. Many landlords have held firm on rents, with some even pushing rates higher this quarter, particularly in the CBD and the Eastern markets. It is likely that rents will remain elevated as landlords pass on incremental cost increases to tenants.

In terms of capital markets, there is still significant capital chasing suburban deals. Although interest rates are on the rise, with a robust pipeline of assets coming to market, investment sales activity is anticipated to remain strong.

Top Q1 2022 Lease Transactions

Tenant	Market	Building	Type	Square Feet
BOCES	Harrison – East I-287	450 Mamaroneck Avenue	Renewal	58,459
Byram Healthcare Centers	White Plains – CBD	120 Bloomingdale Road	Renewal	28,944
Transamerica Financial Life Insurance	Harrison – East I-287	440 Mamaroneck Avenue	Renewal	27,470
Greenberg Traurig	White Plains – CBD	1 North Lexington Avenue	New Lease	20,000
MeritDirect	Rye Brook – East I-287	2 International Drive	Renewal	17,038
Gelfand Rennert & Feldman	White Plains – CBD	445 Hamilton Avenue	New Lease	14,003

Select Q1 2022 Sales Transactions

Building	Market	Sale Price	Price/SF	Square Feet
1 North Broadway & 445 Hamilton Avenue	White Plains – CBD	\$105,000,000	\$149	702,642
1111 & 1129 Westchester Avenue	White Plains – East I-287	\$83,500,000	\$228	366,460

RESEARCH Q1 2022

Submarket Statistics							
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)
White Plains CBD	4,895,898	-	22.17%	-81,044	-81,044	\$38.66	\$27.85
Eastern Westchester	8,977,635	-	20.49%	-122,007	-122,007	\$28.72	\$24.61
Western Westchester	3,721,858	-	25.45%	359	359	\$27.16	\$19.00
Northern Westchester	6,820,498	-	38.70%	-20,028	-20,028	\$25.17	-
Southern Westchester	1,738,047	-	12.93%	-11,687	-11,687	\$25.79	\$25.00
Westchester County	26,153,936	-	25.76%	-234,407	-234,407	\$28.52	\$26.00

Submarket Statistics – Class A							
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)
White Plains CBD	4,328,314	-	23.25%	-80,265	-80,265	\$39.60	\$27.85
Eastern Westchester	7,949,526	-	21.43%	-127,541	-127,541	\$29.10	\$24.61
Western Westchester	2,613,478	-	31.93%	4,727	4,727	\$26.88	\$19.00
Northern Westchester	5,259,389	-	44.38%	-21,711	-21,711	\$25.23	-
Southern Westchester	1,063,368	-	16.99%	-14,487	-14,487	\$26.95	\$25.00
Westchester County	21,214,075	-	28.56%	-239,277	-239,277	\$28.86	\$26.00

Submarket Statistics – Class B							
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)
White Plains CBD	567,584	-	13.91%	-779	-779	\$27.85	-
Eastern Westchester	1,028,109	-	13.23%	5,534	5,534	\$24.07	-
Western Westchester	1,108,380	-	10.17%	-4,368	-4,368	\$29.00	-
Northern Westchester	1,561,109	-	19.56%	1,683	1,683	\$24.74	-
Southern Westchester	674,679	-	6.52%	2,800	2,800	\$20.64	-
Westchester County	4,939,861	-	13.71%	4,870	4,870	\$25.52	-

Economic Conditions

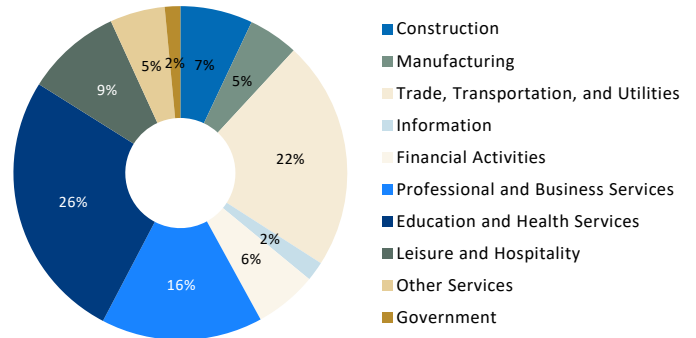
Private sector job count in the Hudson Valley region rose by 27,400 (+3.7%), to 765,100 in March 2022. Within the region, the Orange-Rockland-Westchester labor market grew by 3.5% over the past year.

The leisure and hospitality super sector saw the most growth in March 2022, up by 12,000 jobs, followed by professional and business services (+4,900), trade, transportation and utilities (+4,500), other services (+4,100), manufacturing (+1,600), information (+700) and financial activities (+200).

As of March 2022, Westchester County's unemployment rate stood at 3.5%, compared to 6.2% in March 2021.

Employment By Industry

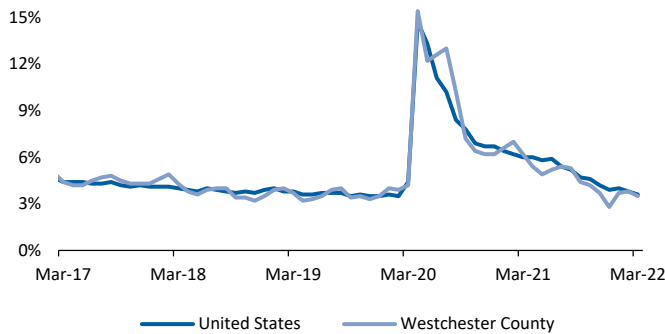
Orange-Rockland-Westchester Area



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

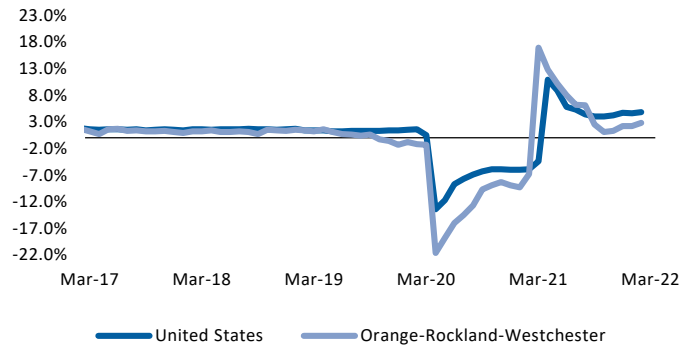
Westchester County Area (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics

Payroll Employment

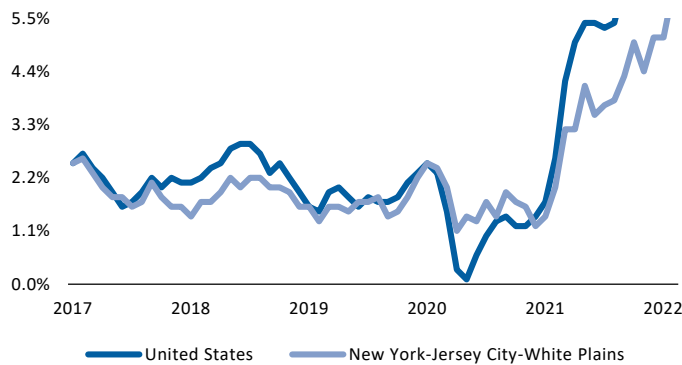
Total Nonfarm, 12-Month % Change (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

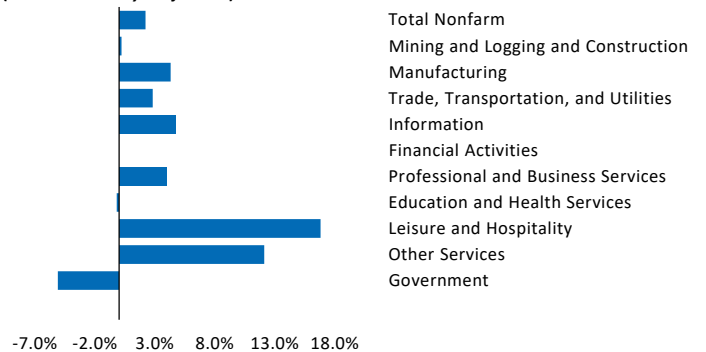
All Items, 12-Month % Change (Not Seasonally Adjusted)



*Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

Orange-Rockland-Westchester, 12-Month % Change (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics



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MIDDLE EAST

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