

Westchester County Office Market

Tenant Requirements Rebound After Pandemic-Related Disruption

Market fundamentals for Westchester County's office sector were relatively stable in the second quarter of 2021, but a rebound in mid- to large-size tenant requirements signal a recovery is underway. Leading indicators remained nearly unchanged from the previous quarter, with marginal movements in availability and rental rates. Net absorption ended slightly positive with 12,168 square feet, but improved significantly from last quarter's negative 136,085 square feet. The overall availability rate increased by 2.6 percentage points year over year, from 22.9% in the second quarter of 2020 to the current 25.5%. This change was a result of several large blocks of space added to the East I-287 market in the past year. But while large blocks are plentiful along the Eastern Corridor, quality space opportunities are still somewhat limited.

Employment growth continues to reflect the reopening of the economy as COVID-related restrictions are almost fully lifted. Business confidence is on the rise and more companies have begun their transition back to the new normal. The county's unemployment rate was 4.8% in May, down from 5.4% in April. This shows a significant improvement from May of 2020 when the rate stood at 12.2%. Although overall employment is still below pre-pandemic levels, Westchester County is poised for a smoother recovery from this pandemic-induced recession, compared with the financial crisis of 2008.

Mid-year 2021 Leasing Volume Up by 70.5% Year Over Year

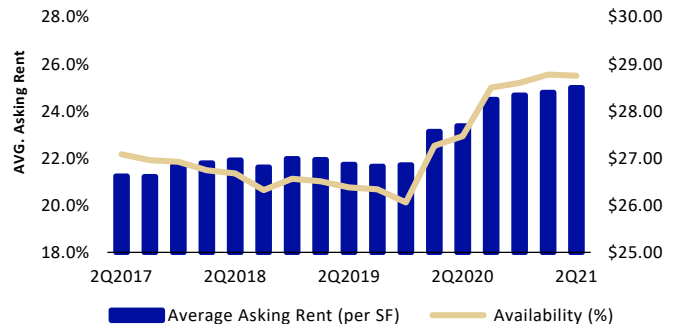
Leasing activity in the second quarter totaled 462,234 square feet, down by 10.3% from the previous quarter but demonstrated a considerable increase from the 300,000 square feet leased in second quarter of 2020. Year-to-date totals reached nearly 1 million square feet, an increase of 70.5% from the first half of 2020. Activity through the first half of 2021 shows that the leasing market has nearly reached pre-pandemic levels. The largest lease this quarter was signed by Veterinary Emergency Group, which committed to a new 41,172-square-foot lease at 44 South Broadway in Downtown White Plains. This deal represents a relocation of its national headquarters from Valhalla.

Current Conditions

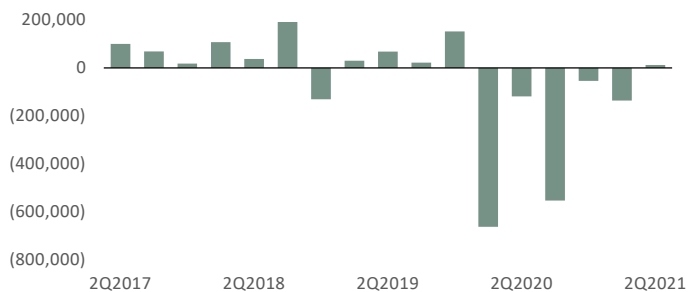
- Year-to-date leasing activity totals reached nearly one million square feet, an increase of 70.5% from the first half of 2020.
- Availability increased by 2.6 percentage points, from 22.9% last year to 25.5%, due to large blocks added to the Eastern I-287 market.
- With several large, higher priced availabilities added this year, average asking rental rate increased by 2.9% year-over-year, to \$28.50/SF.

Market Analysis

ASKING RENT AND AVAILABILITY RATE



NET ABSORPTION



Market Summary

| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 27.1 MSF | 27.1 MSF | 27.1 MSF | ↓ |
| Availability Rate | 25.5% | 25.6% | 22.9% | ↔ |
| Net Absorption (SF) | 12,168 | (136,085) | (118,474) | ↔ |
| Average Asking Rent/SF | \$28.50 | \$28.40 | \$27.69 | ↔ |
| Under Construction (SF) | 0 | 0 | 0 | ↓ |

New Transactions Comprise Majority of Leasing Velocity

New transactions surpassed renewal activity deals this quarter, in a reversal of the trend seen in prior quarters since the pandemic began. There were 74 new leases signed totaling 285,000 square feet, as compared to 32 renewals totaling 162,000 square feet. Last quarter, renewals comprised 64.2% of the total leasing activity. In the past year, many tenants signed short-term extensions while assessing future needs and their exploring options, while some others saw an opportunity during pandemic-related market conditions to secure better financial terms and signed new deals. However, a transition towards pre-pandemic business patterns has already begun and this quarter's new commitments led demand once again.

Small Deals Continued to Drive Demand, but Large Requirements Reemerge

Leasing commitments below 10,000 square feet continued to carry demand this year. Deals for less than 5,000 square feet were most prevalent, with total mid-year leasing volumes in this size range ending 21.3% above the historical average. The number of transactions in this size category also grew, with 134 deals signed so far this year compared with the mid-year historical average of 104 deals. By contrast, mid- to large-size deals have diminished. Leasing totals by 25,000-square-foot to 50,000-square-foot tenants were down 48.8% from the historical mid-year average. Similarly, leasing by 50,000-square-foot to 100,000-square-foot tenants also dropped by 29.2%. Deals above 100,000 square feet have been limited. The county has not witnessed a new transaction that size since 2017 when Sumitomo Mitsui Banking Corporation opened a new location at Gateway in Downtown White Plains. The last transaction over 100,000 square feet was a renewal and downsize signed last quarter by Amalgamated Life Insurance Company for 105,000 square feet in the East I-287.

Medical Requirements Resurface

Although mid- to large-size deals have remained scarce since the pandemic began, tenant requirements for larger footprints have begun to return to the market. There are currently 25 tenants in the market looking for more than 10,000 square feet in Westchester County, ranging from requirements with a minimum of 900,000 square feet to a maximum of 1.0 million square feet. Twelve of those requirements fall between 10,000 square feet and 50,000 square feet. The finance and insurance sectors comprise most of the tenant demand, but this year, requirements from medical users have resurfaced. Roughly 180,000 square feet of medical-related tenants, including Westmed Medical Group and Northwell Health, have requirements that may materialize in the second half of the year. In addition to the deal inked by Veterinary Emergency Group, other medical or healthcare-related tenants that have already completed deals this year include New York State Department of Health's 19,000-square-foot renewal at 145 Huguenot Street in New Rochelle; Cognitive Behavioral Consultants of Westchester's 17,000-square-foot renewal and expansion at White Plains Plaza; White Plains Hospital Medical Center's 13,000-square-foot expansion at Westchester One in White Plains; and ENT and Allergy Associate's new 9,405-square-foot lease at 200 White Plains Road in Tarrytown.

Adapting and Moving Forward

With the pandemic subsiding, many firms have started or are in the process of calling employees back to the office. Some firms are already at near-full capacity, while others are embracing a hybrid model of remote and in-person work. While there are indications that the hybrid model is here to stay, remote work is unlikely to become a dominant mode of employment.

Top Mid-Year 2021 Lease Transactions

| Tenant | Market | Building | Type | Square Feet |
|--|---------------------------|------------------------|-----------|-------------|
| Amalgamated Life Insurance Company | White Plains – I-287 East | 333 Westchester Avenue | Renewal | 105,000 |
| Transamerica Financial Life Insurance* | Harrison – I-287 East | 440 Mamaroneck Avenue | Renewal | 57,470 |
| Veterinary Emergency Group | White Plains – CBD | 44 South Broadway | New | 41,172 |
| Ampacet Corp. | Tarrytown – I-287 West | 660 White Plains Road | Renewal | 35,000 |
| New York State Department of Health | New Rochelle – Southern | 145 Huguenot Street | Renewal | 19,000 |
| United States Attorney's Office | White Plains – CBD | 50 Main Street | New Lease | 18,450 |

*Short-term

Select 2021 Sales Transactions

| Building | Market | Sale Price | Price/SF | Square Feet |
|--|-------------------------|--------------|----------|-------------|
| 3 Executive Boulevard & 3 Odell Plaza (Portfolio Sale) | Yonkers – Southern | \$36,700,000 | \$281 | 130,607 |
| 163 North Main Street | Port Chester – Southern | \$5,750,000 | \$196 | 29,380 |

RESEARCH Q2 2021

| 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 | 4,916,084 | 0 | 20.72% | 10,747 | 24,060 | \$36.29 | \$24.77 |
| Eastern Westchester | 9,473,816 | 0 | 23.89% | 29,308 | -148,975 | \$29.82 | \$24.61 |
| Western Westchester | 3,749,858 | 0 | 22.54% | -460 | 8,917 | \$27.32 | \$19.00 |
| Northern Westchester | 7,203,498 | 0 | 35.72% | -59,497 | -54,333 | \$25.14 | - |
| Southern Westchester | 1,818,378 | 0 | 12.57% | 32,070 | 46,414 | \$26.58 | \$25.00 |
| Westchester County | 27,161,634 | 0 | 25.51% | 12,168 | -123,917 | \$28.50 | \$24.34 |

| 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 | 4,308,500 | 0 | 21.99% | 9,885 | 26,127 | \$37.14 | \$24.77 |
| Eastern Westchester | 8,398,407 | 0 | 23.25% | 5,150 | -173,653 | \$30.18 | \$24.61 |
| Western Westchester | 2,613,478 | 0 | 26.67% | -21,196 | -19,338 | \$26.91 | \$19.00 |
| Northern Westchester | 5,642,389 | 0 | 40.60% | -49,581 | -54,775 | \$25.18 | - |
| Southern Westchester | 1,143,699 | 0 | 15.76% | 23,133 | 22,854 | \$27.70 | \$25.00 |
| Westchester County | 22,106,473 | 0 | 27.53% | -32,609 | -198,785 | \$28.76 | \$24.34 |

| 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 | 607,584 | 0 | 11.73% | 862 | -2,067 | \$25.65 | - |
| Eastern Westchester | 1,075,409 | 0 | 28.91% | 24,158 | 24,678 | \$27.70 | - |
| Western Westchester | 1,136,380 | 0 | 11.42% | 20,736 | 28,255 | \$29.54 | - |
| Northern Westchester | 1,561,109 | 0 | 18.09% | -9,916 | 442 | \$24.79 | - |
| Southern Westchester | 674,679 | 0 | 7.17% | 8,937 | 23,560 | \$21.45 | - |
| Westchester County | 5,055,161 | 0 | 16.67% | 44,777 | 74,868 | \$26.58 | - |

Economic Conditions

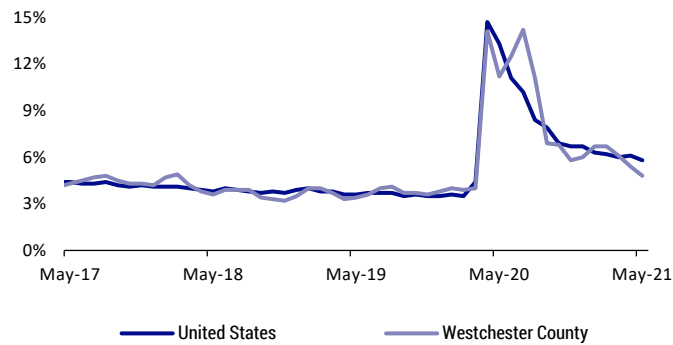
For the 12-month period ending in May 2021, private sector employment in the Hudson Valley increased by 95,300 (14.6%). Employment growth continues to reflect the reopening of the economy as COVID-related restrictions are almost fully lifted. Within the region, the Orange-Rockland-Westchester labor market was the second fastest-growing labor market area (+15.3%).

Industries with the largest gains were in leisure and hospitality (+30,500), trade, transportation and utilities (+26,600), educational and health services (+13,500), professional and business services (+9,900), natural resources, mining and construction (+7,500), other services (+6,900) and manufacturing (+2,700). Job losses were greatest in financial activities (-2,300).

The unemployment rate continued to drop; Westchester’s unemployment rate was 4.8% in May, down from last month’s 5.6% and 11.2% a year ago. Employment is still 9.2% lower than pre-pandemic levels, but recovery continues along with overall economic growth.

Unemployment Rate

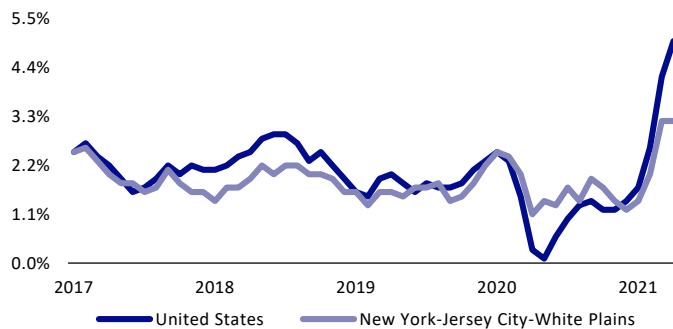
Westchester County Area (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

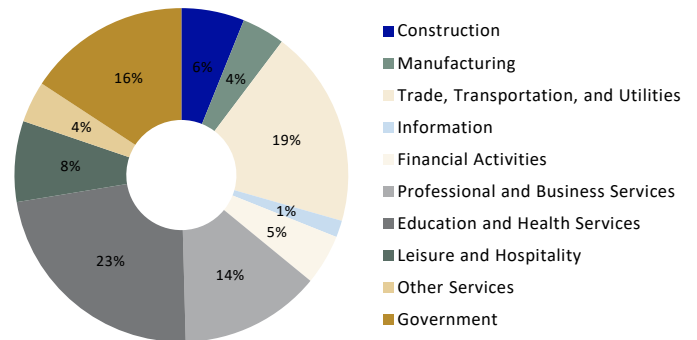
All Items, 12-Month % Change (Not Seasonally Adjusted)



*Source: U.S. Bureau of Labor Statistics

Employment By Industry

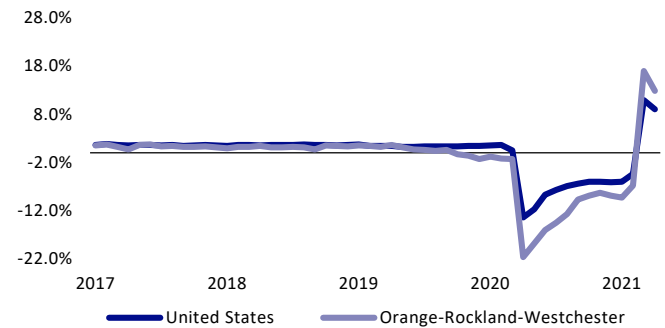
Orange-Rockland-Westchester Area



Source: U.S. Bureau of Labor Statistics

Payroll Employment

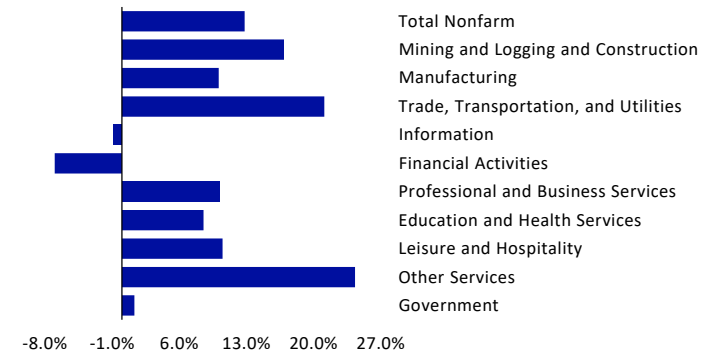
Total Nonfarm, 12-Month % Change (Not Seasonally Adjusted)



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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