
2Q23

Westchester County Office Market Overview



NEWMARK

Market Observations

Economy

- The Westchester region’s labor market remained resilient amid shifting macroeconomic conditions. June’s unemployment rate of 3.0% was lower than the 3.6% national rate.
- Year-over-year, job gains have been most pronounced in the leisure and hospitality sector, growing by 13.9% in the Westchester-Orange-Rockland region. In June, this sector gained 10,200 jobs, leading monthly job growth in the region.
- Job losses year-over-year were centered in the information sector, due to massive layoffs in the tech industry. However, for the month of June, job decline was mostly centered in the professional and business sector, down 3,800 jobs.
- Inflation continued a downward trend locally, ending at 2.5% in June compared to 3.1% nationally.

Major Transactions

- Sonic Healthcare USA recently renewed its 67,000-SF lease at 760 Westchester Avenue in Rye Brook’s East I-287 market
- Two properties along the West I-287 market: 560 and 580 White Plains Road in Tarrytown, went into receivership earlier this year, limiting their ability to transact new lease deals.
- A zoning amendment request has been petitioned by the owners of 303 South Broadway in Tarrytown, NY, to allow for the demolition of their existing office building to build up to 240 apartments units.

Leasing Market Fundamentals

- Leasing activity slowed in the first half of 2023, totaling roughly 735,000 SF, down 24% from the historical midyear average of 955,000 SF. Therefore, net absorption remained subdued, ending with negative 153,077 SF. Renewal activity has been driving demand, but these transactions don’t necessarily get reflected as positive absorption in statistics. Therefore, while the market is stagnant with respect to absorption, there is a strong renewal component that is driving demand.
- The county’s overall vacancy rate remains historically high, ending the second quarter at 23.8%. However, this level remains skewed by a single, 1.1-million SF block of obsolete office space long vacated by IBM in Somers. Without this block the total vacancy rate would drop to 19.8%.
- Overall asking rents continue trending upwards since the pandemic, though the growth rate has braked this year. The direct average asking rent ended the second quarter of 2023 at \$28.56/SF, 6.1% above the 2019, pre-COVID average asking rent of \$26.92/SF.

Outlook

- The pandemic prompted seismic shifts in occupancy rates and the types of spaces tenants seek. Landlords are expected to compete not only with the building across the street, but also with a lingering remote work model.
- The flight-to-quality trend has only intensified and will continue to play a major role in demand, as firms seek to modernize their offices with superior amenities and overall quality to retain their workforce.
- Much of the commodity lower-quality space will continue to muddle along, but the drop in leasing velocity in Westchester County is also in large part due to an ever-shrinking inventory base, following a vast number of building conversions

1. Economy
2. Leasing Market Fundamentals

2Q23

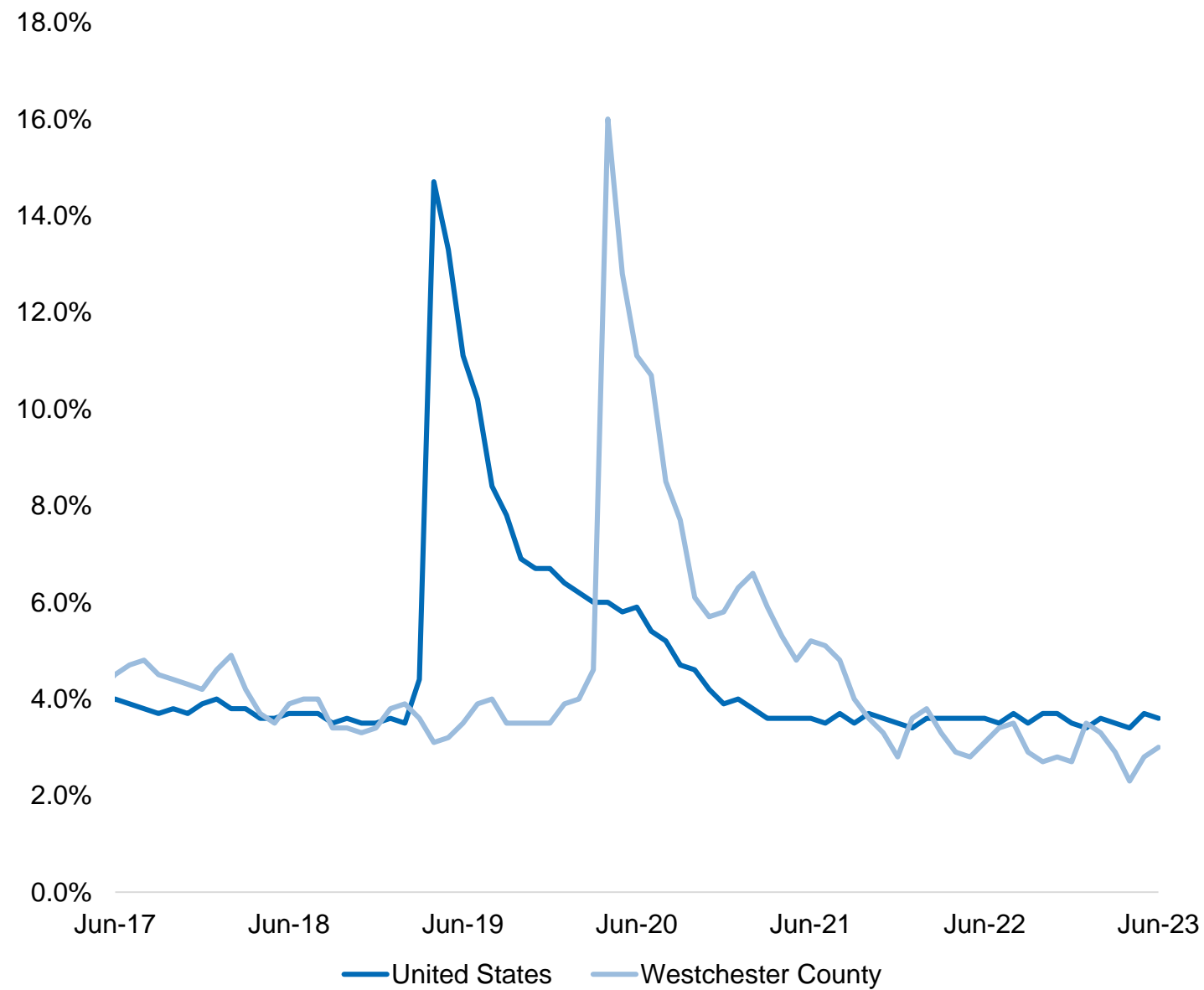
Economy



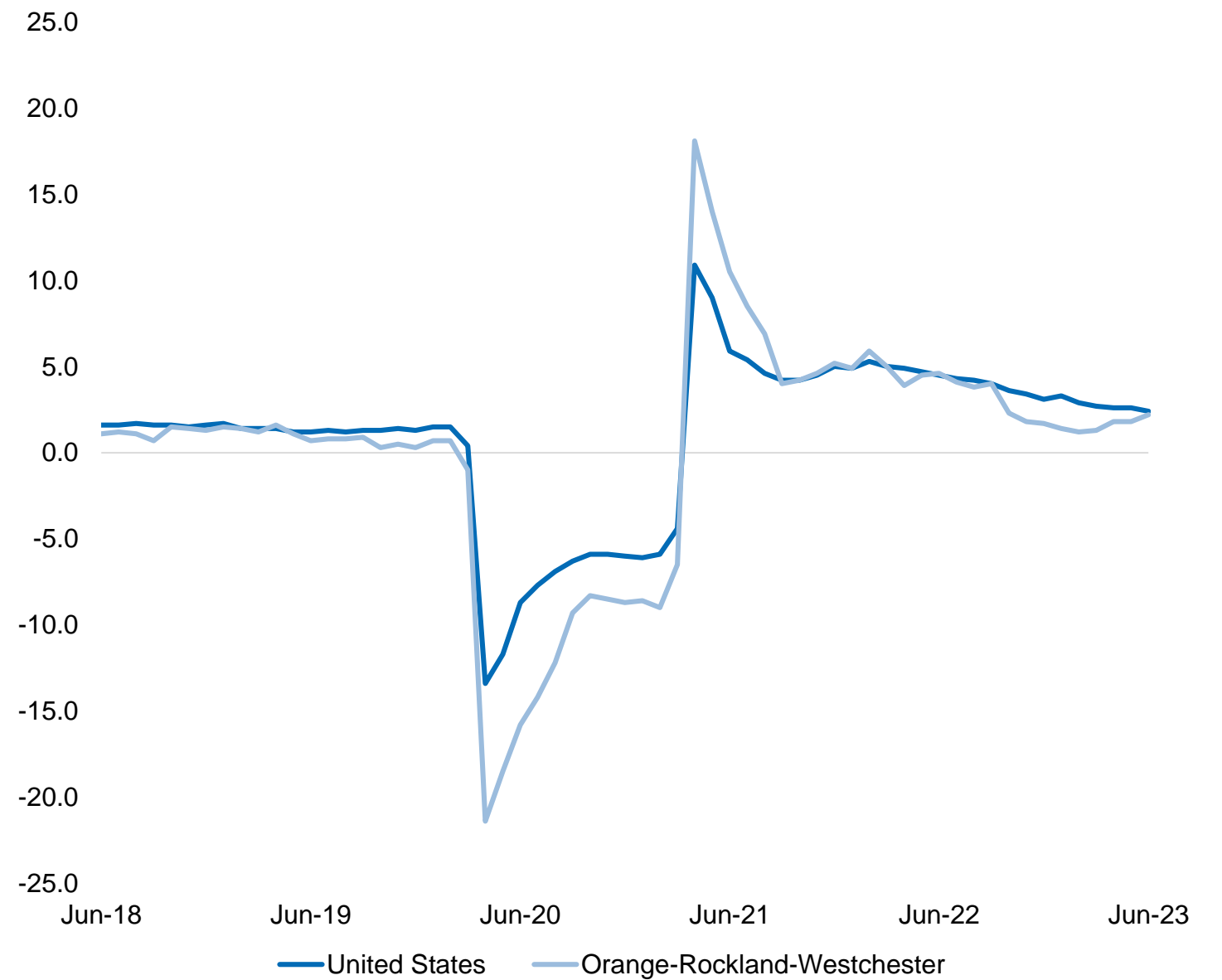
Metro Employment Trends Signal A Strong Local Economy

The unemployment rate for Westchester County ended at 3.0% in June, down 0.1% year over year, and up 0.2% since last month. Meanwhile, the national rate ended at 3.6% this month, mirroring last year's rate and down 0.1% compared to last month.

Unemployment Rate, Seasonally Adjusted



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

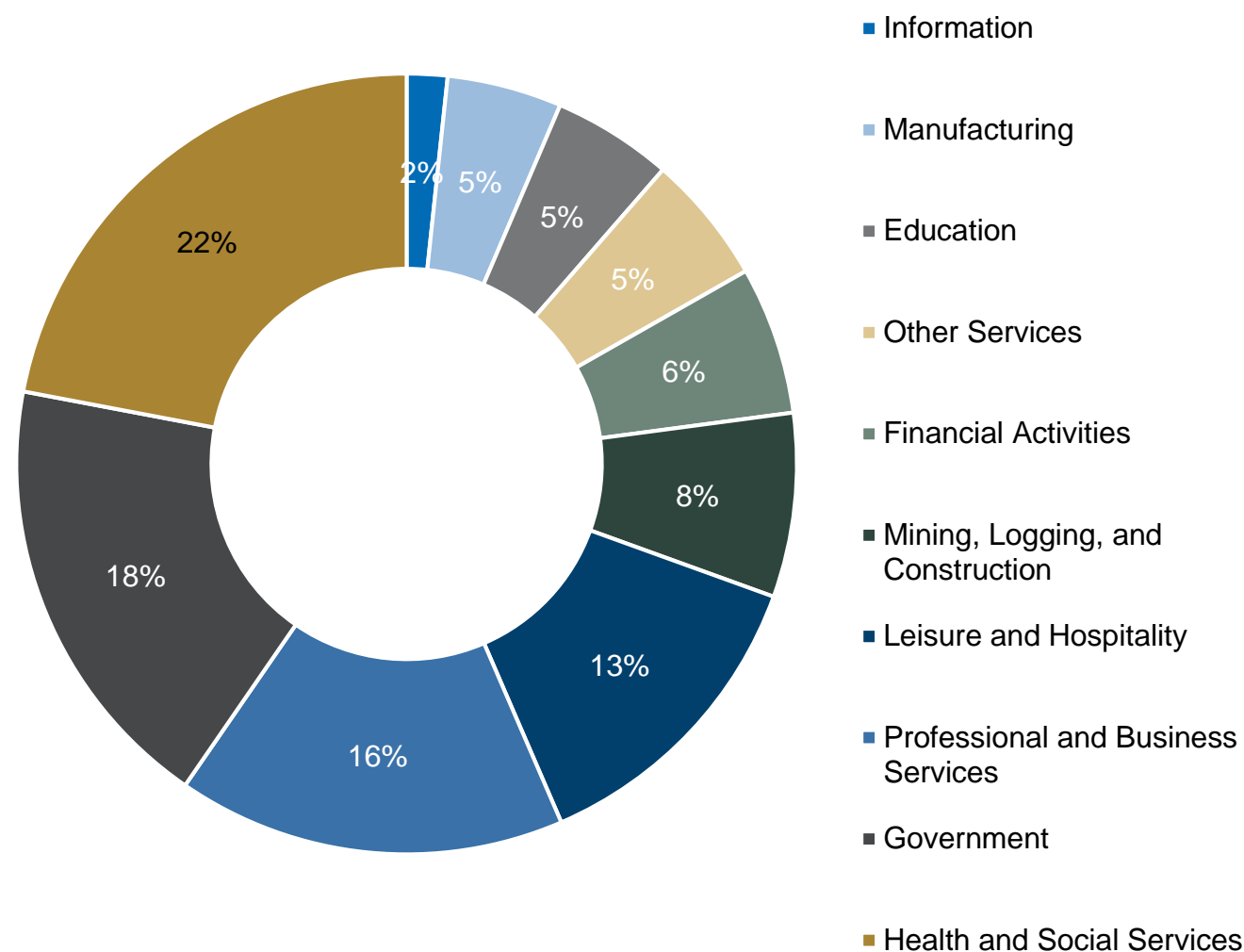


Source: U.S. Bureau of Labor Statistics, Westchester County Area (Not Seasonally Adjusted)

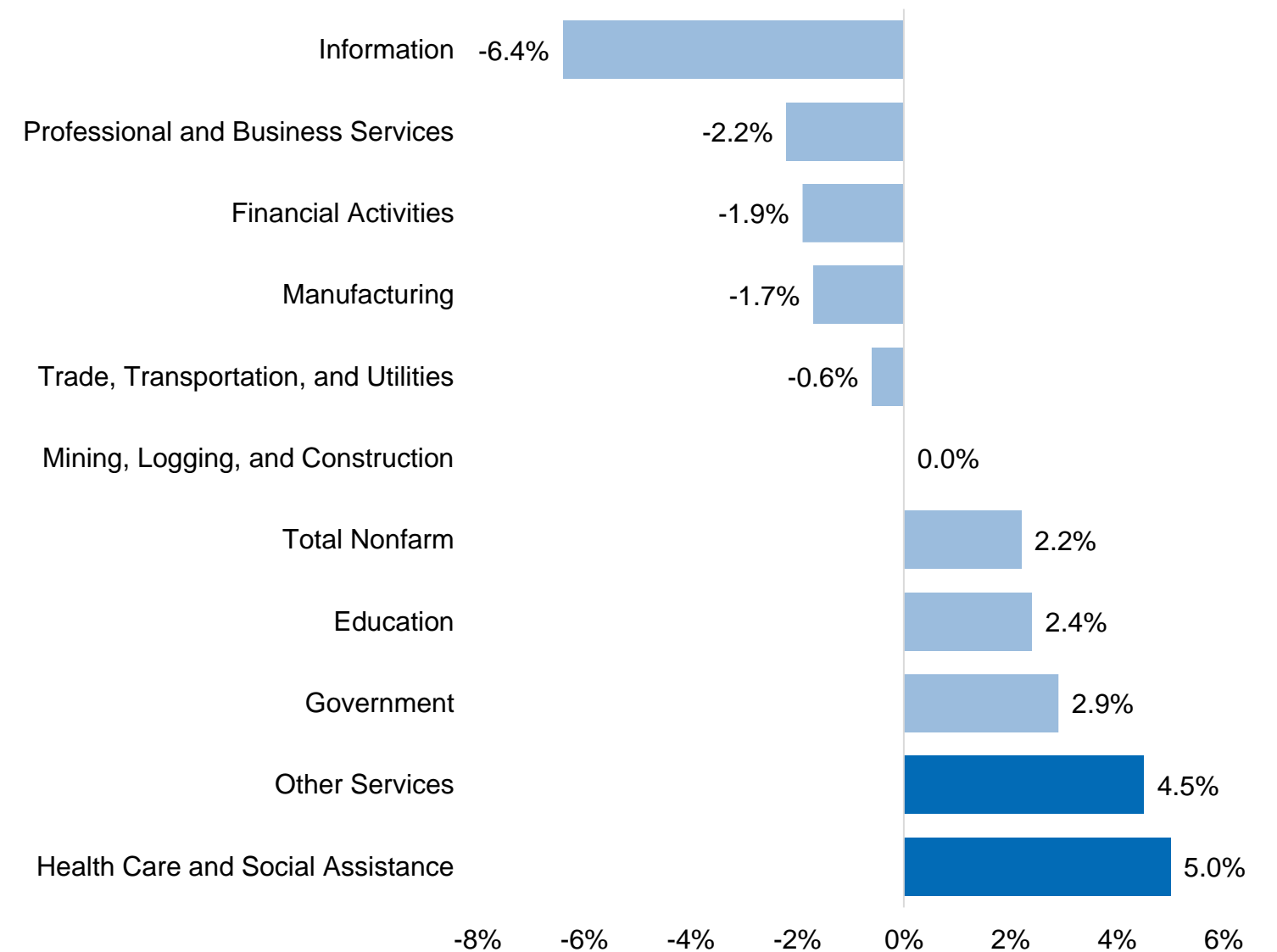
Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

Job growth was driven by the leisure and hospitality sector (+10,200), followed by private education and health services (+7,300), other services (+1,600), and mining, logging, and construction (+300). Industries that recorded declines were focused in professional and business services (-3,800), information (-900), financial activities (-600), trade, transportation and utilities (-500), and manufacturing (-400).

Employment by Industry, June 2023



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

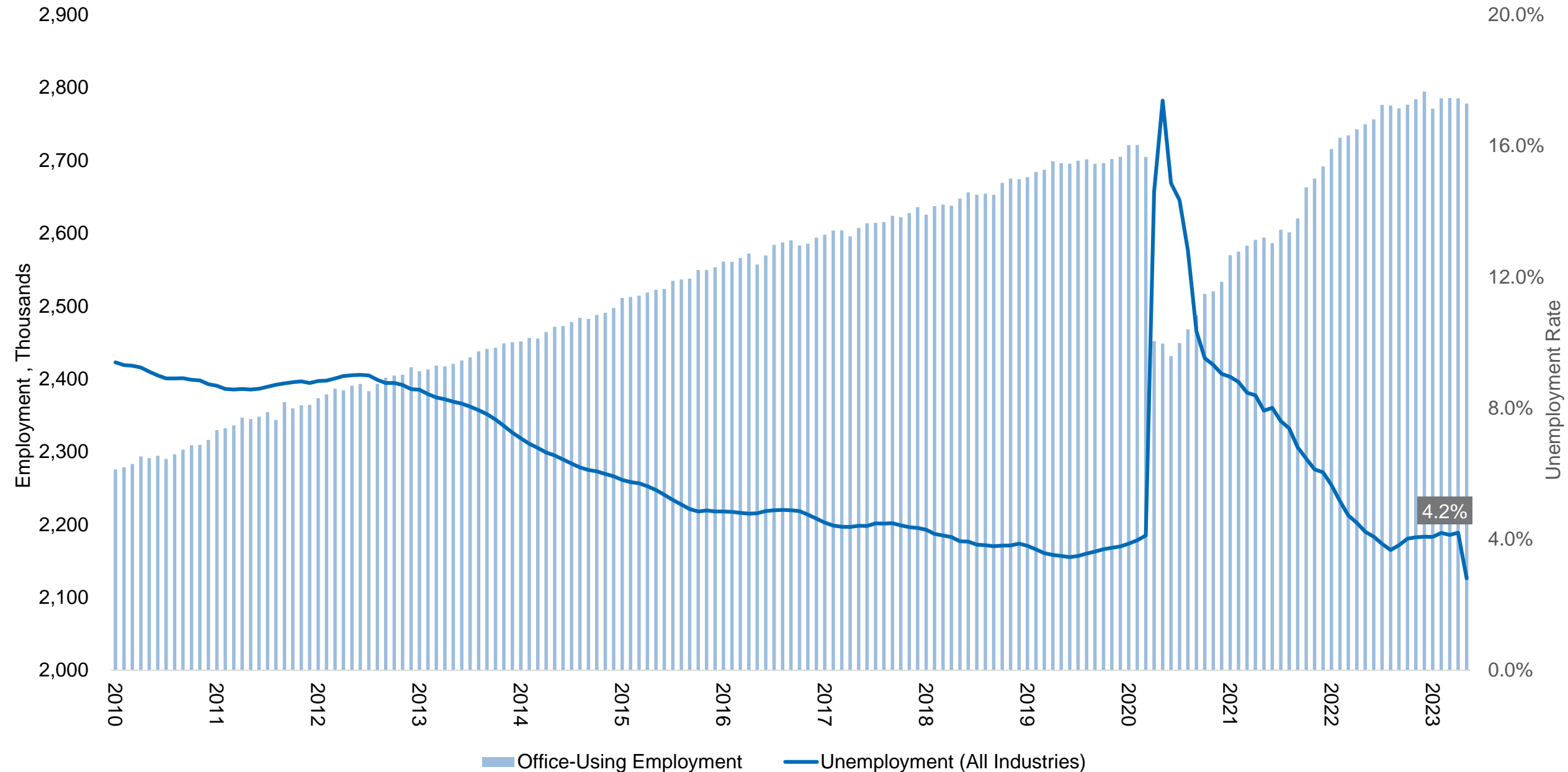


Source: U.S. Bureau of Labor Statistics, Westchester County Area (Not Seasonally Adjusted)

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded to pre-pandemic levels. While there is seasonally a small dip in employment rates at the beginning of each year, there were a significant number of layoffs in the Information sector that may affect the length of the seasonal bump in unemployment.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Westchester County Area (Not Seasonally Adjusted)

Note: February 2023 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

2Q23

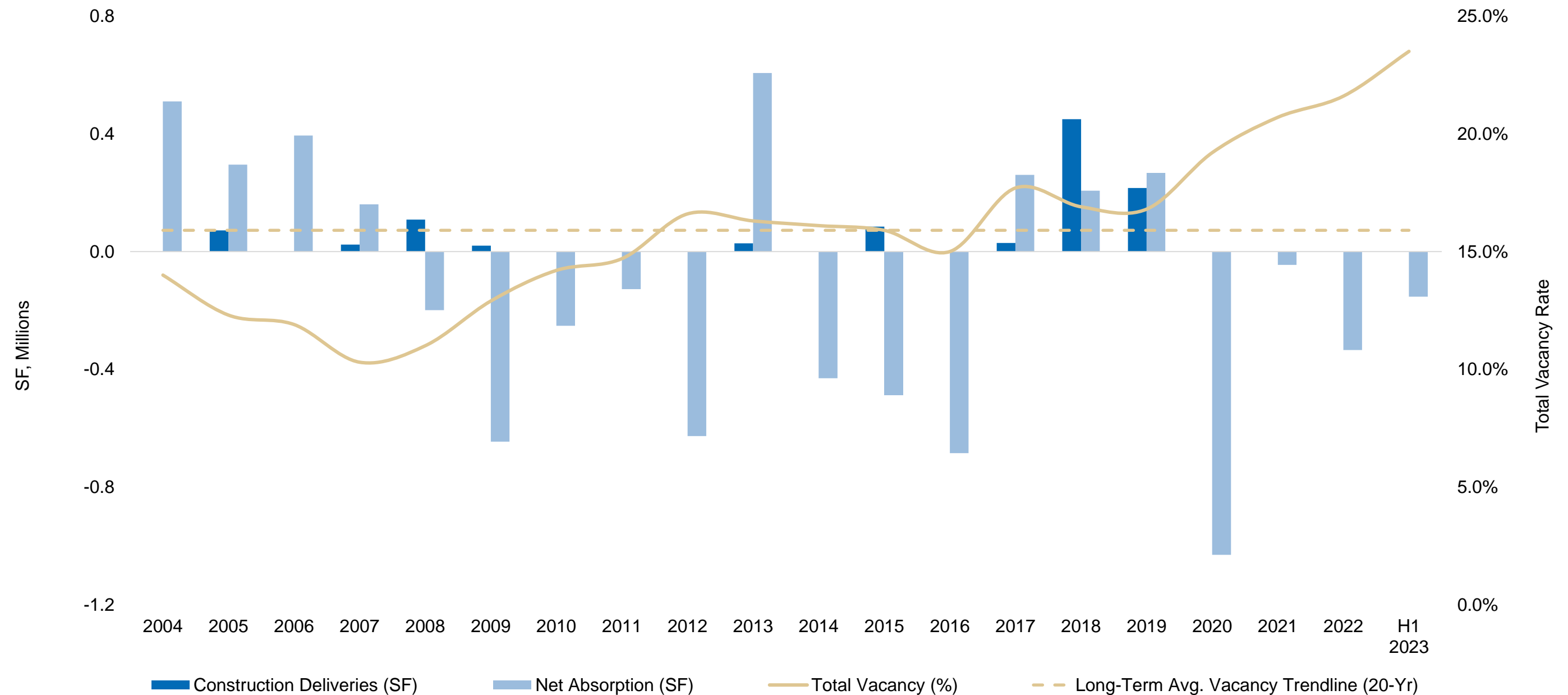
Leasing Market Fundamentals



Further Disruption and Rightsizing Continues to Affect the Local Market

The total vacancy rate increased to 23.8% in the second quarter of 2023, 2.2 percentage points higher than the rate recorded a year ago. Absorption was negative 153,077 SF in the first half of the year, mainly due to a 120,000-SF block of space added to the market by the United States Tennis Association (USTA) at 70 West Red Oak Lane in Harrison. Earlier this year, USTA downsized and relocated within the market, taking a much smaller, 27,000-SF space along Westchester Avenue.

Historical Construction Deliveries, Net Absorption, and Vacancy

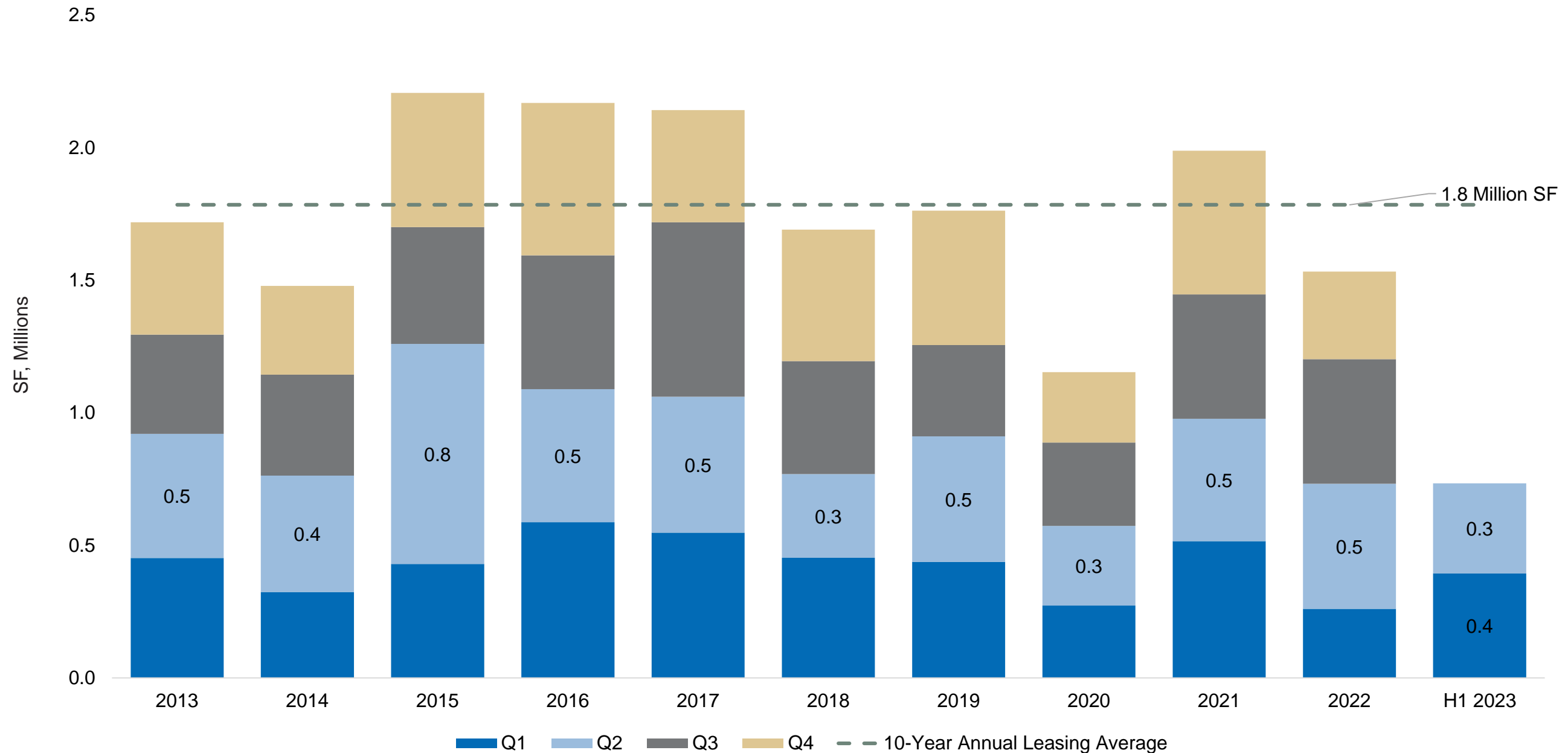


Source: Newmark Research

Total Leasing Volume Slows in the First Half of 2023; Lowest Level Since Mid 2020

Leasing velocity slowed considerably in the first half of 2023, totaling roughly 735,000 SF, down 24% from the historical midyear average of 955,000 SF. Ongoing space reductions, a cloudy economic outlook and the higher cost of capital have prompted many firms to pause and implement cost-cutting measures.

Total Leasing Activity (msf)

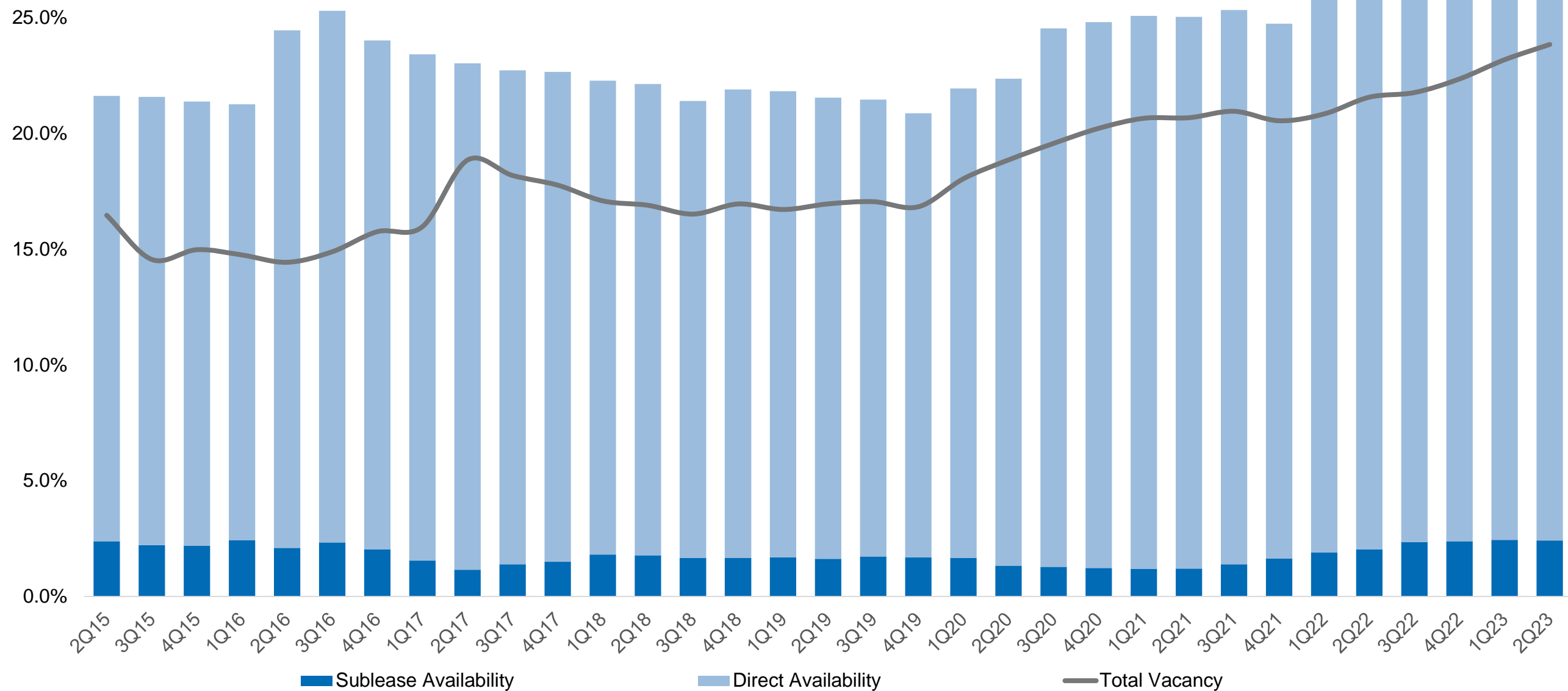


Source: Newmark Research, CoStar

Total Availability Rate Remains Skewed by Large Obsolete Block in the North

Despite an overall slowdown, the sublease availability rate remained unchanged since 2022 at 2.4%. The total vacancy rate ended the second quarter at a high 23.8%. With available spaces gradually transitioning to vacant as leases expire, this rate is expected to increase further. However, this level remains skewed by a single, 1.1-million SF block of obsolete office space long vacated by IBM in Somers. Without this block the total vacancy rate would drop to 19.8%.

Available Space and Tenant Demand as Percent of Overall Market

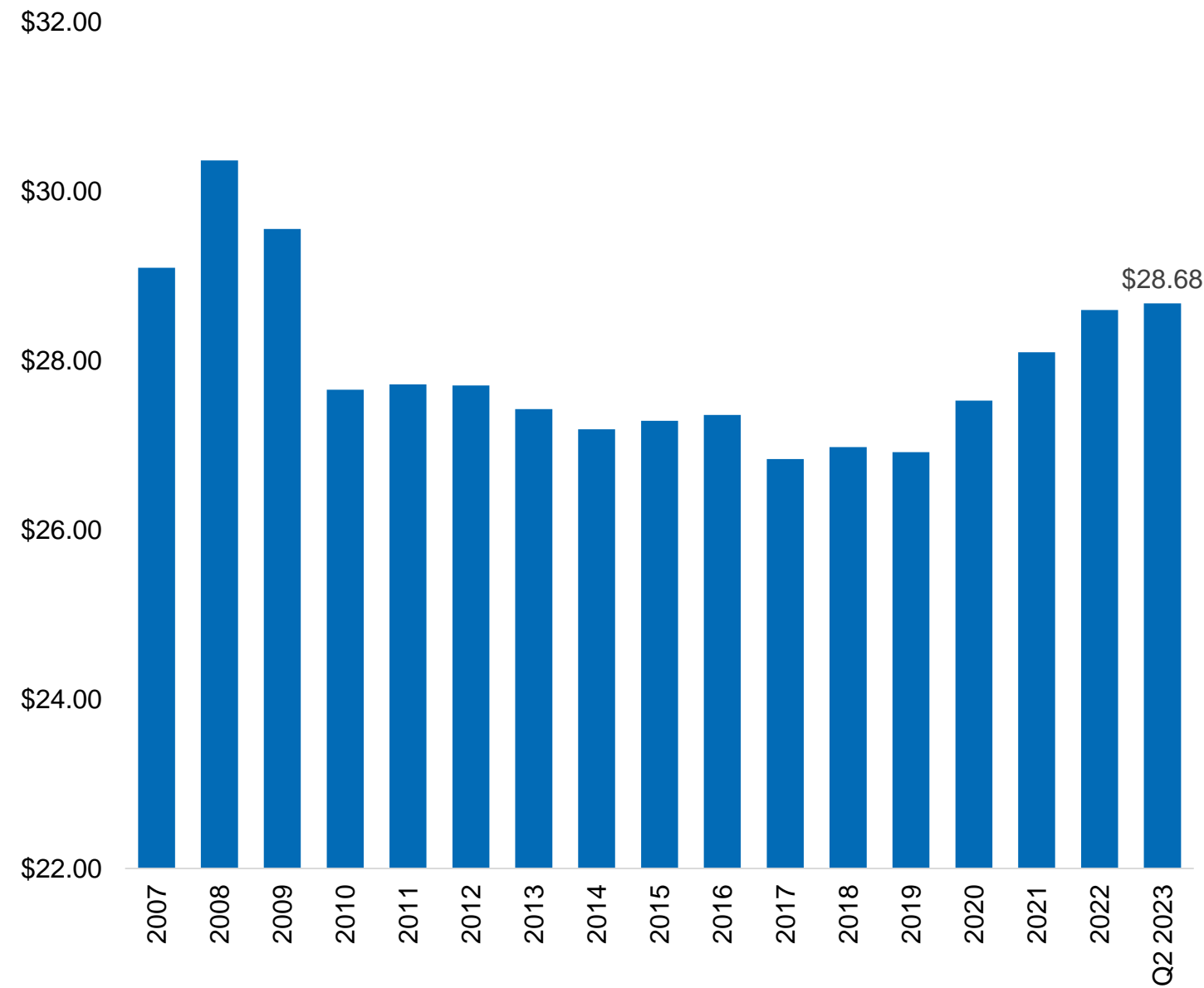


Source: Newmark Research

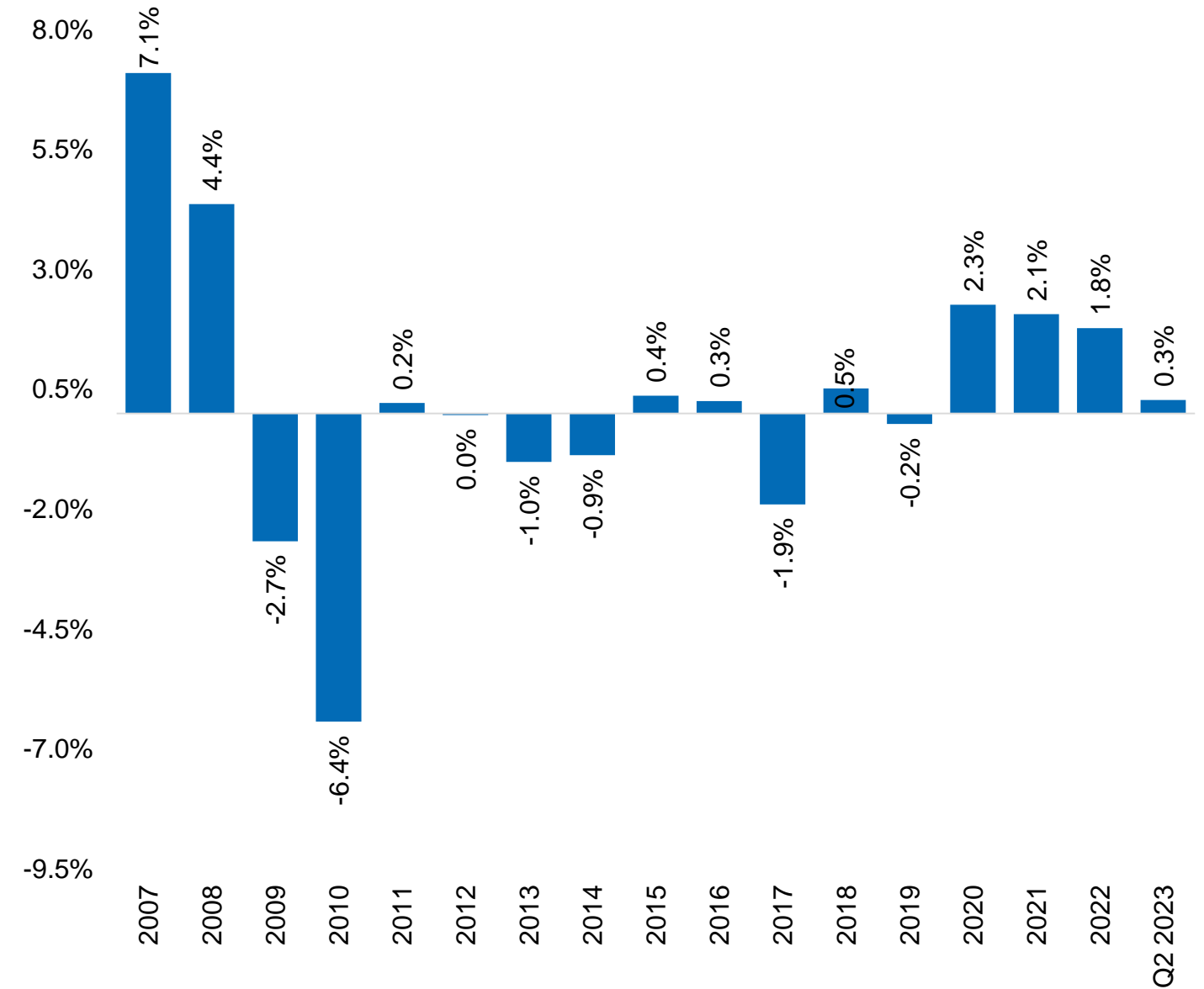
Amid Higher Operating Costs, Market Sees Gradual But Steady Increase in Rents

Overall asking rents continue trending upwards since the pandemic, though the growth rate has softened this year. The midyear 2023 direct average asking rent ended the at \$28.68/SF, 6.5% above the 2019, pre-COVID average asking rent of \$26.92/SF. Generally, amid higher operating costs, asking rents are likely to remain elevated in the quarters ahead.

Office Average Asking Rent, \$/SF/Month, FS



Year-over-Year Asking Rent Growth Rate

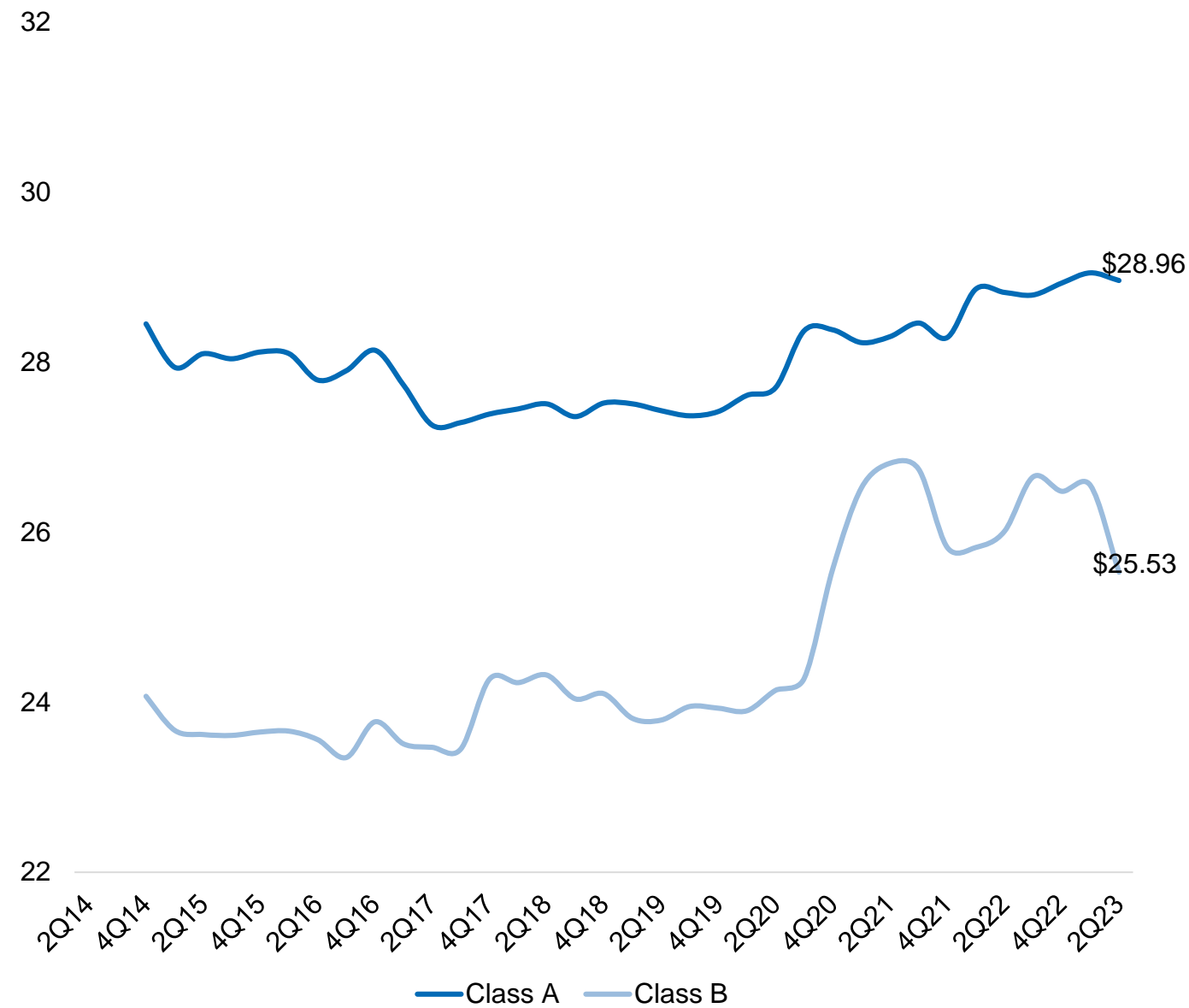


Source: Newmark Research, CoStar

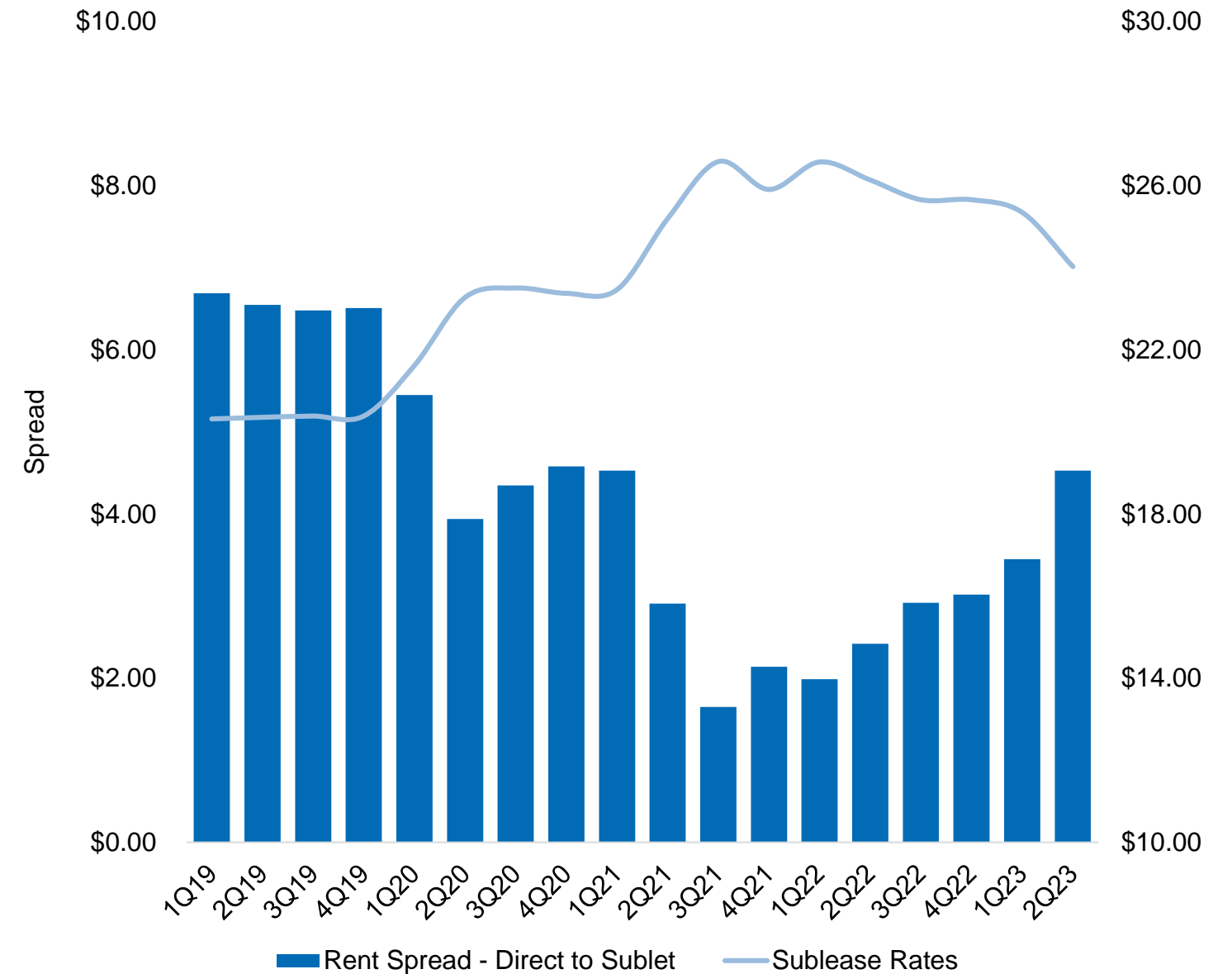
Class B Rental Rates See Steep Decline

A 'flight-to-quality' trend along with sluggish demand has pushed down rental rates for Class B direct space, from \$26.70/SF at the peak in 2021 to the current \$25.53/SF. With lower quality sublease space entering the market at significantly discounted rates, the rent spread between direct and sublease contracted further.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research, CoStar

Leasing Activity Remained Primarily Lease-Expiration Driven

Renewal activity in the first half of 2023 was up by 31.7% from the same period in 2022, while new deals were down 33.7% year over year. Deals for less than 25,000 SF drove demand in the first two quarters of the year, capturing 94% of the total leasing activity.

Notable Midyear 2023 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Sonic Healthcare USA	760 Westchester Avenue	Rye Brook – East I-287	Renewal	67,000
<i>Largest renewal in the County in the past 12 months</i>				
New York State OGS Department of Taxation	44 South Broadway	White Plains – CBD	Renewal	40,331
Deutsche Bank Securities	6 International Drive	Rye Brook – East I-287	New Lease	22,731
United States Tennis Association	2500 Westchester Avenue	Purchase – East I-287	Sublease	21,855
<i>Intra-county relocation out of 70 West Red Oak Lane in Harrison. USTA will be cutting its footprint by approximately 80%</i>				
Aerolase Corp.	120 White Plains Road	Tarrytow – West I-287	Renewal, Expansion	19,859
<i>Tenant adding an additional 10,098 SF to its footprint</i>				

For more information:

Karolina Alexandre

Research Manager

Westchester County, NY / CT Research

Karolina.Alexandre@nmrk.com

Westchester County, NY

800 Westchester Avenue – Suite 706

Rye Brook, NY 10576

t 914.881.1024

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK