

3Q23

Westchester County Office Market Overview



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Market Observations

Economy

- In August 2023, the Westchester County region's private sector employment count continued to trend upward. Job growth in the education and health services sector remained strong, with its 10th consecutive months of year-over-year gains. Year-over-year, in August 2023, the sector grew by 5.6% to 215,100, its highest August employment count on record.
- Over the past year, the private sector jobs count rose by 11,600, or 1.4% to 815,800. Employment gains were largest in education and health services (+11,500), followed by leisure and hospitality (+6,400) and other services (+1,600). Job losses were greatest in professional and business services (-4,600), trade, transportation and utilities (-1,000), financial activities (-700), information (-700), manufacturing (-600) and construction (-300).
- Although office-using employment in the county has decreased since April, down 1.9% from the prior year, the unemployment rate ended at 3.5%, below the 3.8% level in the U.S.

Major Developments

- A consortium led by The Cappelli Organization presented plans for its \$2.5 billion redevelopment of the former Galleria Mall in Downtown White Plains. The 11-acre parcel, is planned to include seven residential towers, retail shops, a food hall and a pedestrian promenade. This would be the largest conversion of a shopping mall into mixed-use space in the New York Metropolitan Tri-State region and would align with the city's strategic plan to expand transit-oriented development.
- Fujifilm, a large tenant at The Summit in Valhalla for two decades, signed a renewal and downsize, retaining 58,000 SF while shedding 65,000 SF.
- Simone Development acquired One Executive Boulevard in Yonkers from Robert Martin Company. The new owner plans to convert the 133,768-SF office building into a medical facility. This represents a step forward in the development of a healthcare sector in Yonkers.
- In July, The Exchange, a ~1.0 million SF portfolio along the East I-287 corridor entered receivership. The buildings affected are in the "700 series" – 701, 707, 709, 711 and 777 Westchester Avenue in White Plains. This comes on the heels of 560 and 580 White Plains Road in Tarrytown also going into receivership.

Leasing Market Fundamentals

- Year-to-date leasing activity reached 1.2 million SF in 225 deals. Although trailing behind last year's leasing volume, the number of deals transacted grew by a count of 45 year-over-year. This indicates an increase in small sized deals, whereas large deals are becoming scarcer. Since 2021 there have been no true office deals signed for more than 100,000 SF. On the flip side, medical or pharmaceutical deals continue to drive activity. The latest being White Plains Hospital, which signed a new deal for roughly 50,000 SF at 750 White Plains Road in Scarsdale.
- The county's overall vacancy rate remains historically high, ending the third quarter at 23.9%. 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 softened considerably this year. The direct average asking rent ended the third quarter of 2023 at \$28.91/SF, 7.4% above the 2019, pre-COVID average asking rent of \$26.92/SF.

Outlook

- With several buildings along the I-287 corridor entering receivership and one major building in Tarrytown, 303 South Broadway, looking to repurpose to residential use, landlords in nearby buildings are already seeing a spillover effect and benefiting from an uptick in activity. This will continue to carry out as leases in these distressed buildings expire.
- Staggering construction costs will keep factoring into rental rate growth. While concessions have remained stable, taking rents have increased in the past year and are expected to continue to see upward pressure amid higher operating costs
- With higher demand for multifamily, medical and education facilities, office inventory is expected to shrink further in coming years with the repurposing of several office that are currently in the municipal approval stage for redevelopments. In the past two decades, Westchester has seen its office inventory shrink by nearly 4 million SF.

1. Economy
2. Leasing Market Fundamentals

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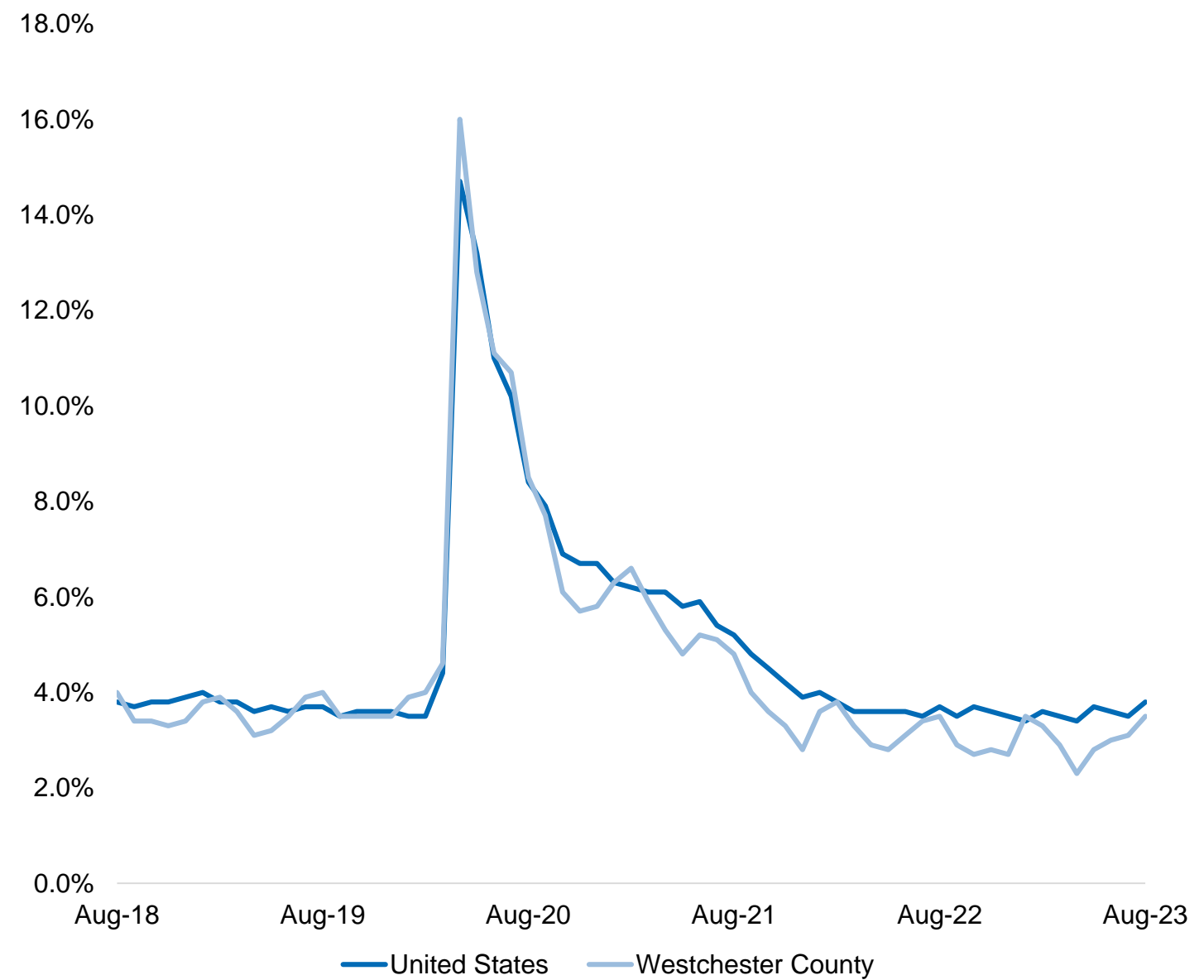
Economy



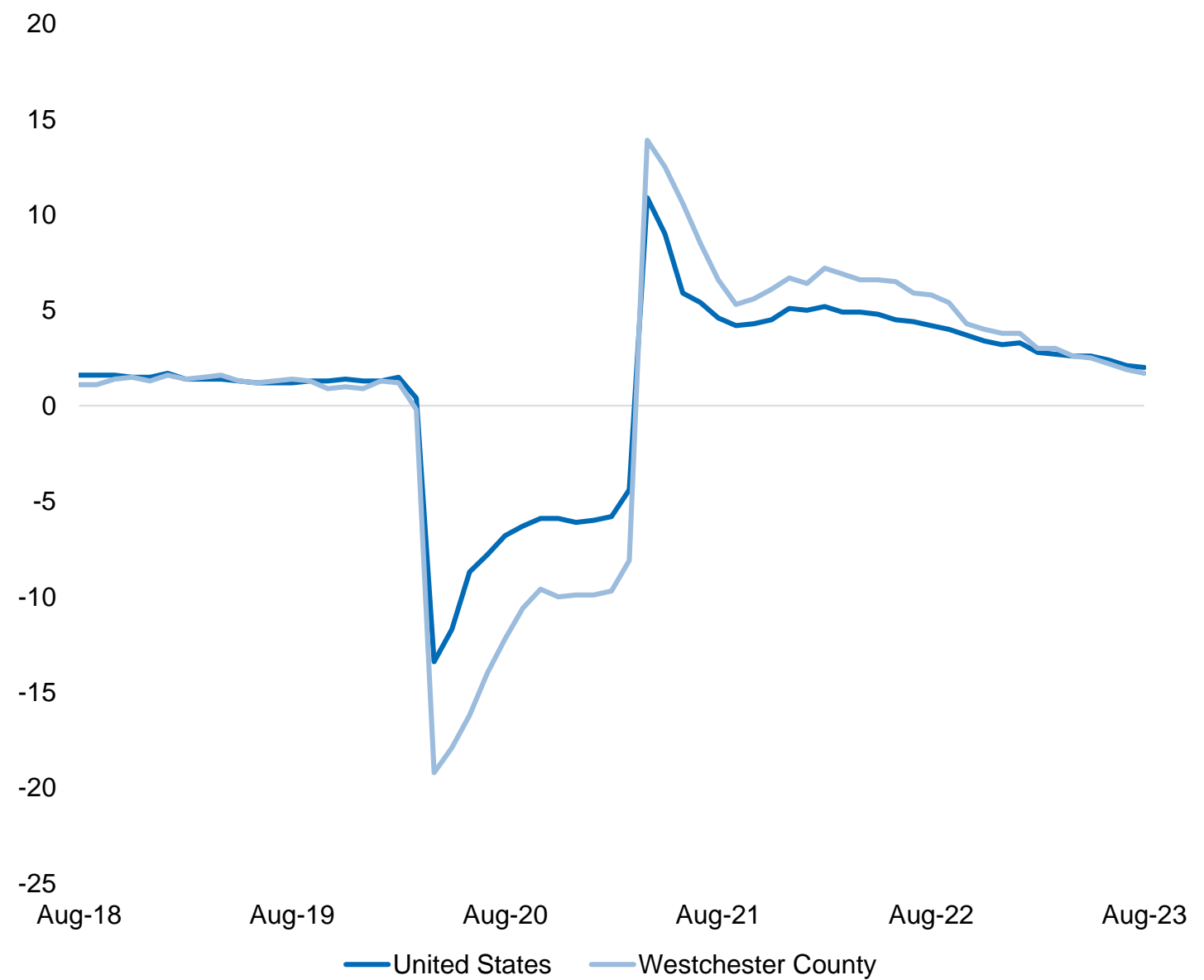
Metro Employment Trends in Westchester County

The unemployment rate in Westchester County ended at 3.5% in August 2023, below the 3.8% in the United States. The region’s private sector increased by 11,600 jobs (or 1.4%), ending at 815,800 positions, while nonfarm jobs increased by 11,500 (or 1.2%) ending at 958,500 positions.

Unemployment Rate, Seasonally Adjusted



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



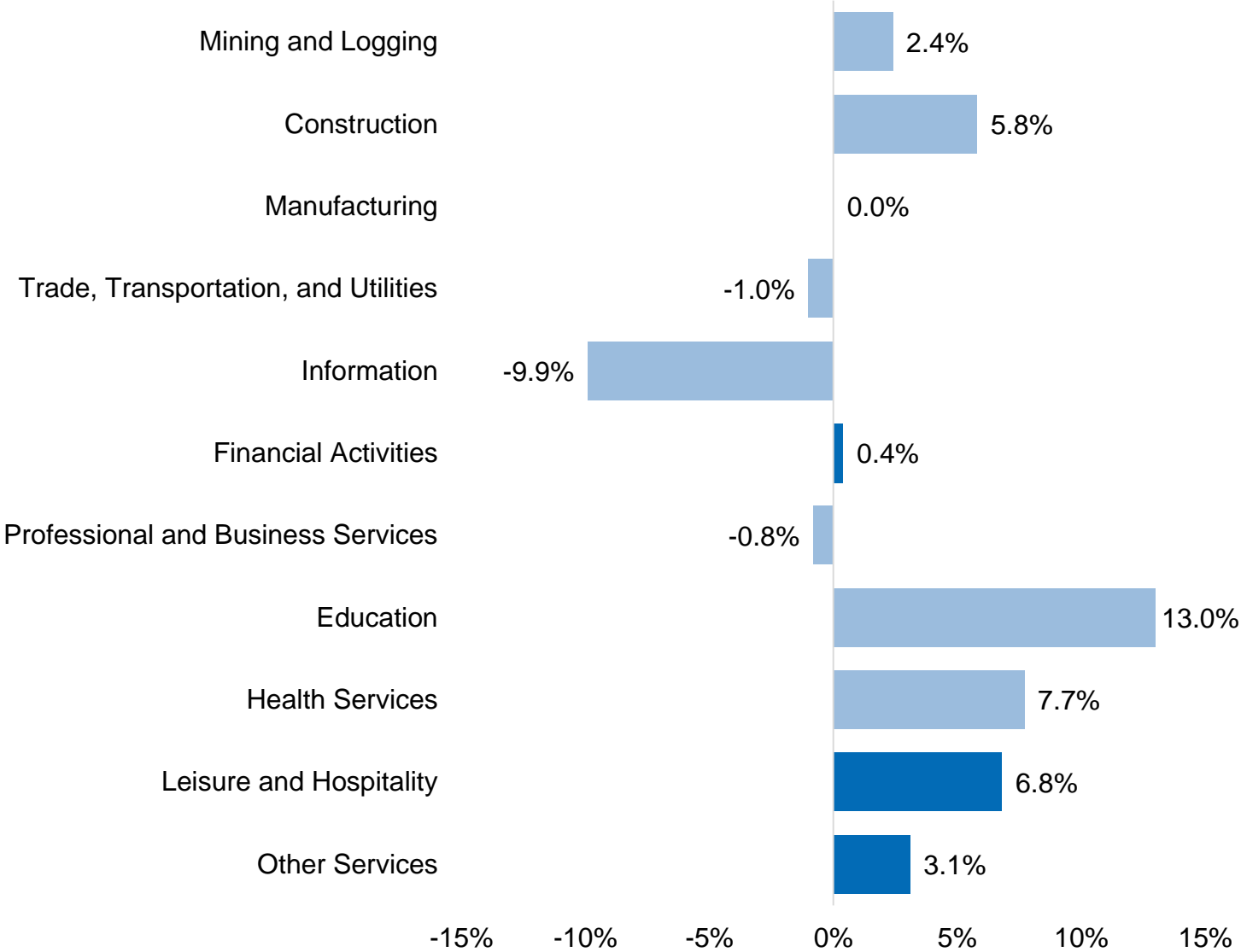
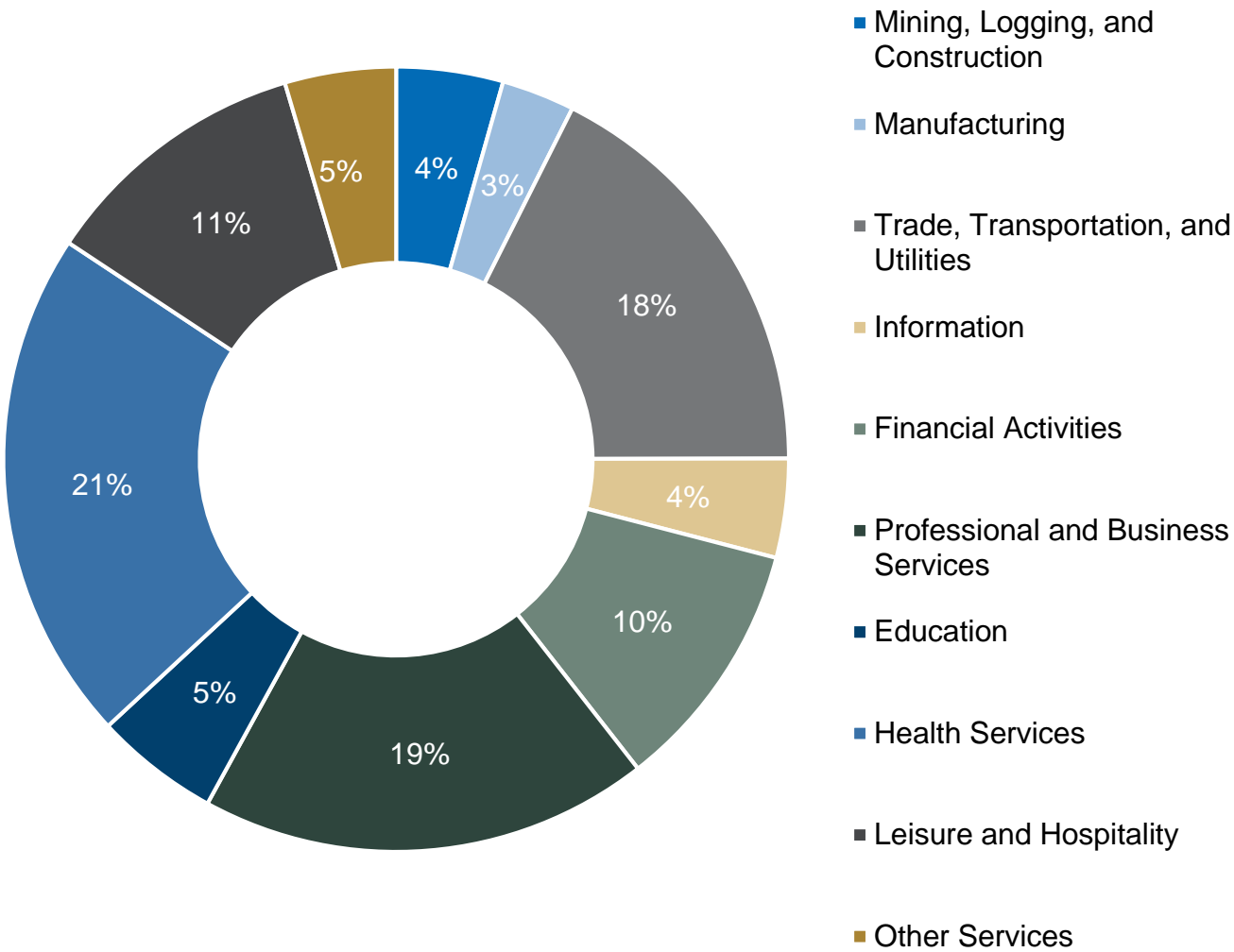
Source: U.S. Bureau of Labor Statistics, Westchester County Area (Not Seasonally Adjusted)

Employment Growth and Employment by Industry

Jobs in the private sector increased by 11,600, or 1.4% year-over-year, reaching 815,800 total positions in August of 2023. Among the growing sectors were education and health services, up 11,500 jobs, followed by leisure and hospitality (+6,400) and other services (+1,600). Sectors that posted job declines were professional and business services (-4,600), trade, transportation and utilities (-1,000), financial activities (-700), information (-700), manufacturing (-600) and construction (-300).

Employment by Industry, August 2023

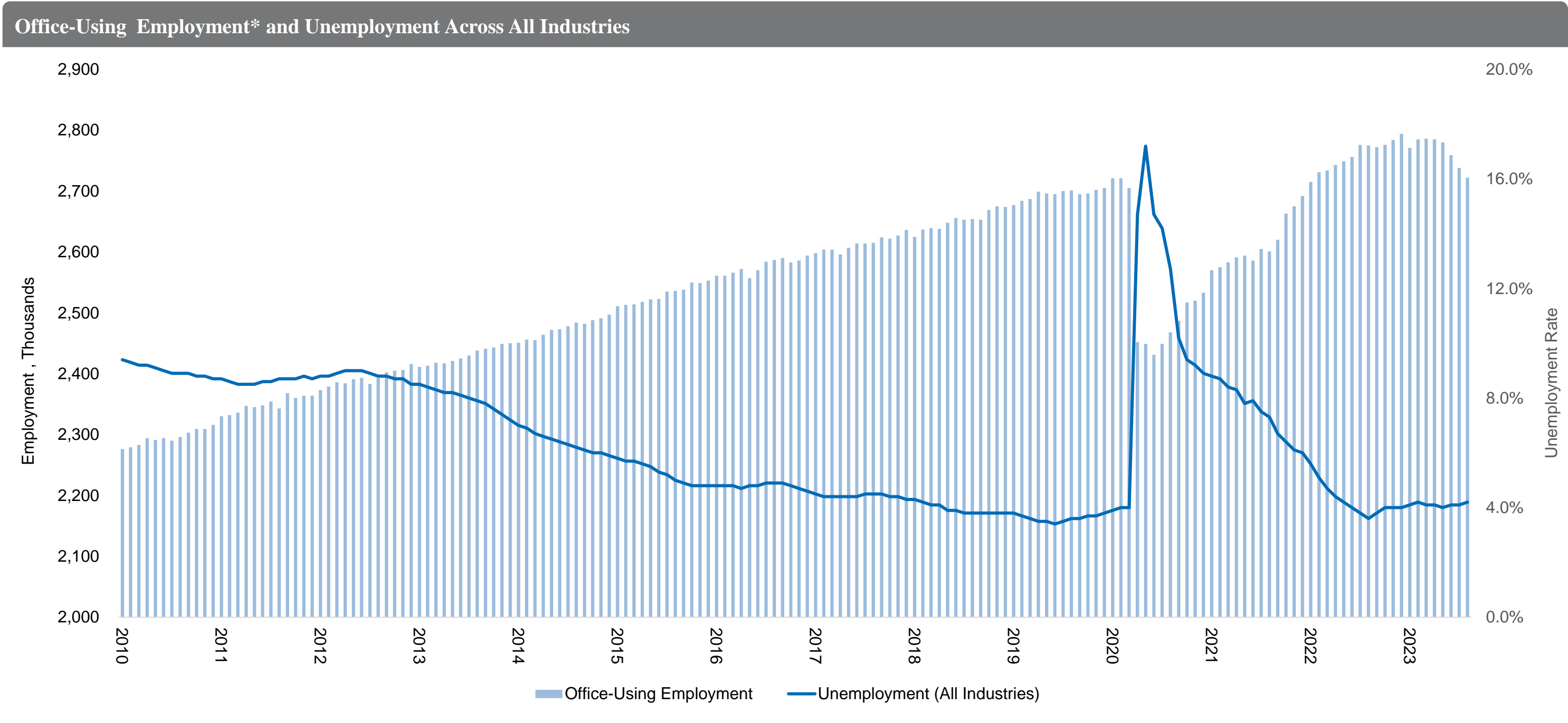
Employment Growth by Industry, 12-Month % Change, August 2023



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

Office-Using Employment Trending Down

Office-using employment is on a downward trend since April of this year, down 1.9% year over year. Although a post-pandemic recovery continues throughout the county, this rate has slowed in most of the largest markets, including in Westchester County. Lingering work from home policies throughout the country continue to compete with added jobs and improved employment rates.



Source: U.S. Bureau of Labor Statistics, Westchester County Area (*Not Seasonally Adjusted*)
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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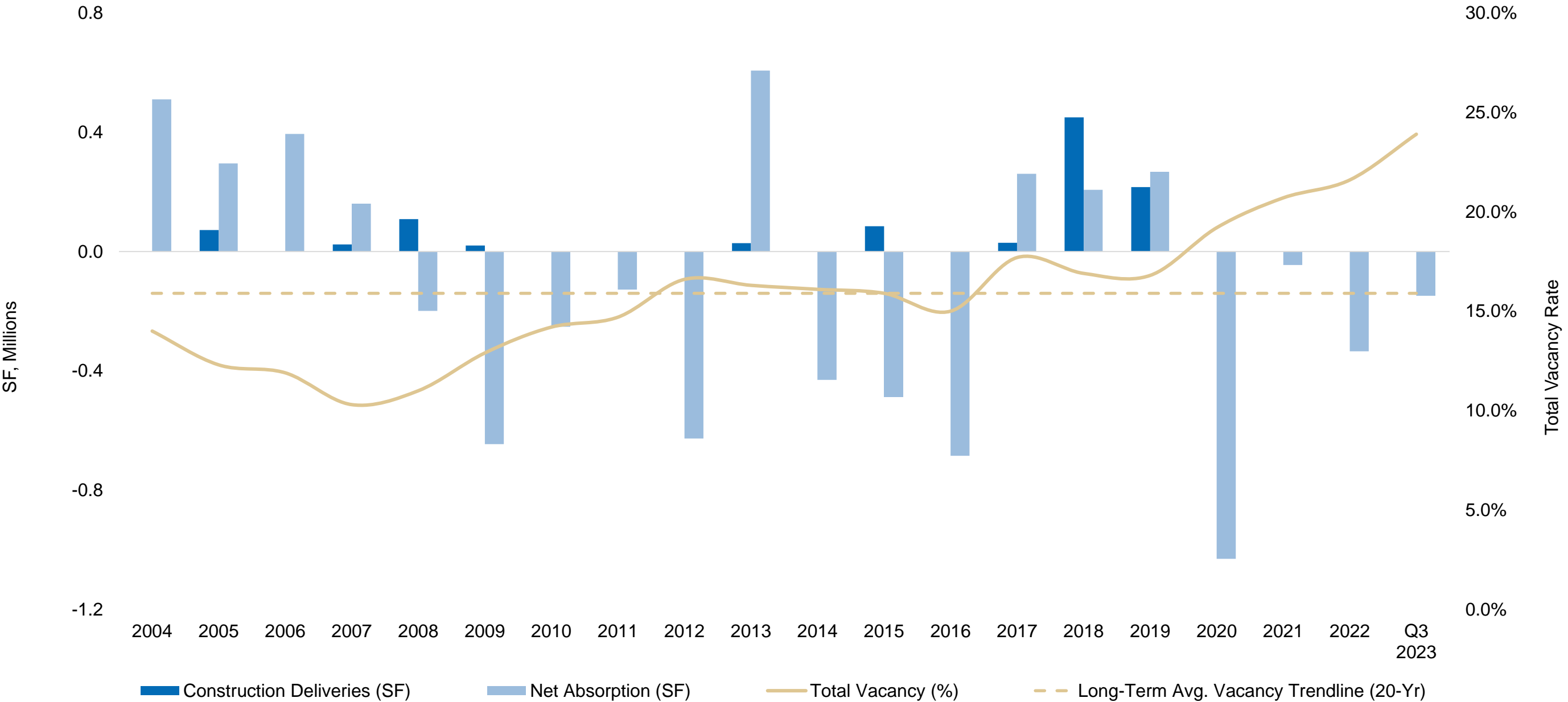
Leasing Market Fundamentals



Large Companies Continue to Right-Size their Office Footprints

Vacancy rates continued to climb, and absorption levels remain negative as large firms continue to right-size their footprints. This was particularly noticeable in the East I-287 market, where Mastercard recently gave up a 121,000-SF block of space at 100 Manhattanville Road in Purchase. Earlier this year, USTA also downsized and relocated within the market, vacating their 120,000-SF facility in West Harrison and taking a much smaller, 27,000-SF space along Westchester Avenue.

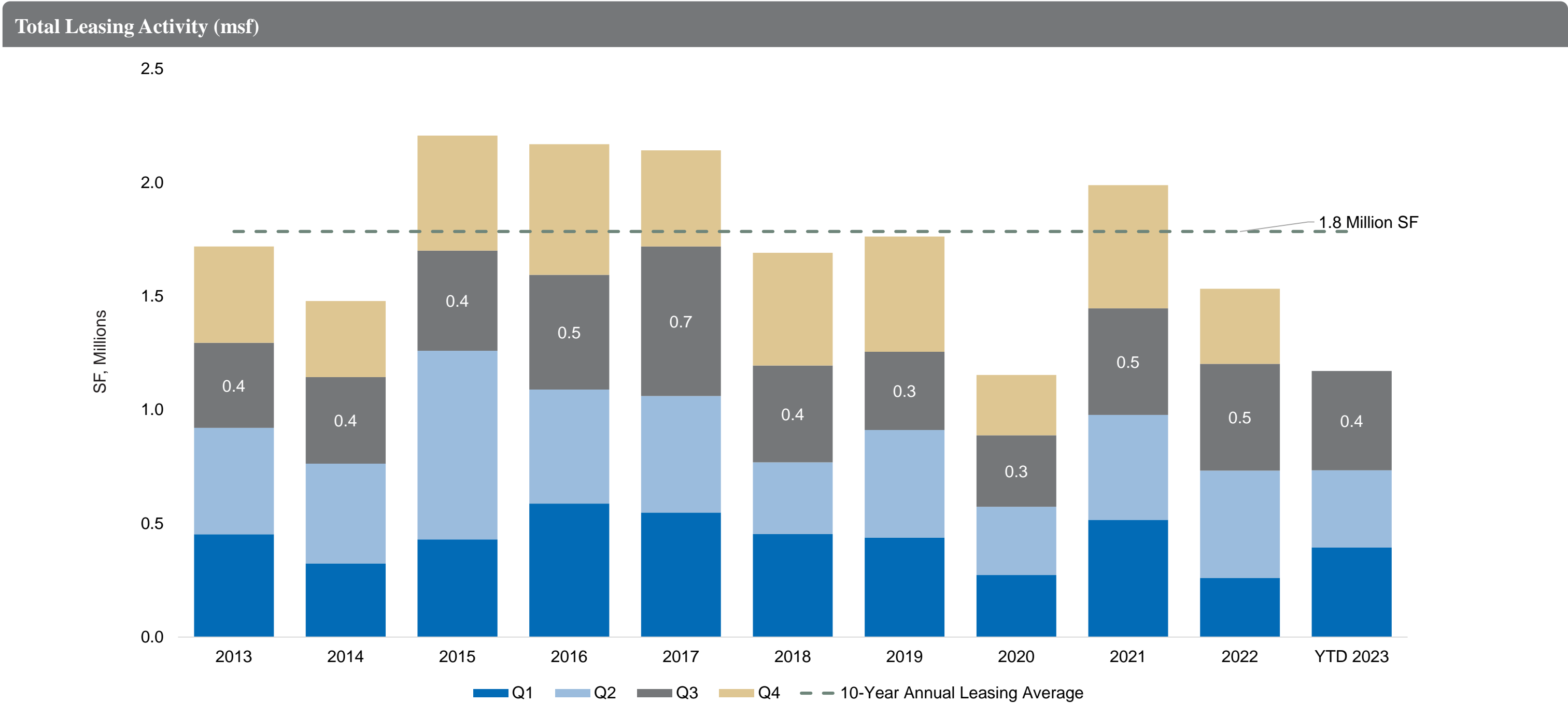
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Third Quarter Demand Improves, but Year-to-Date Figures Remain Below Historical Average

Third quarter leasing activity totaled nearly 450,000 SF, up 28.7% from the previous quarter but slightly below the 475,000 SF leasing volume registered at this time last year. However, at 1.2 million SF, year-to-date 2023 figures ended 11.7% below the 10-year historical average.

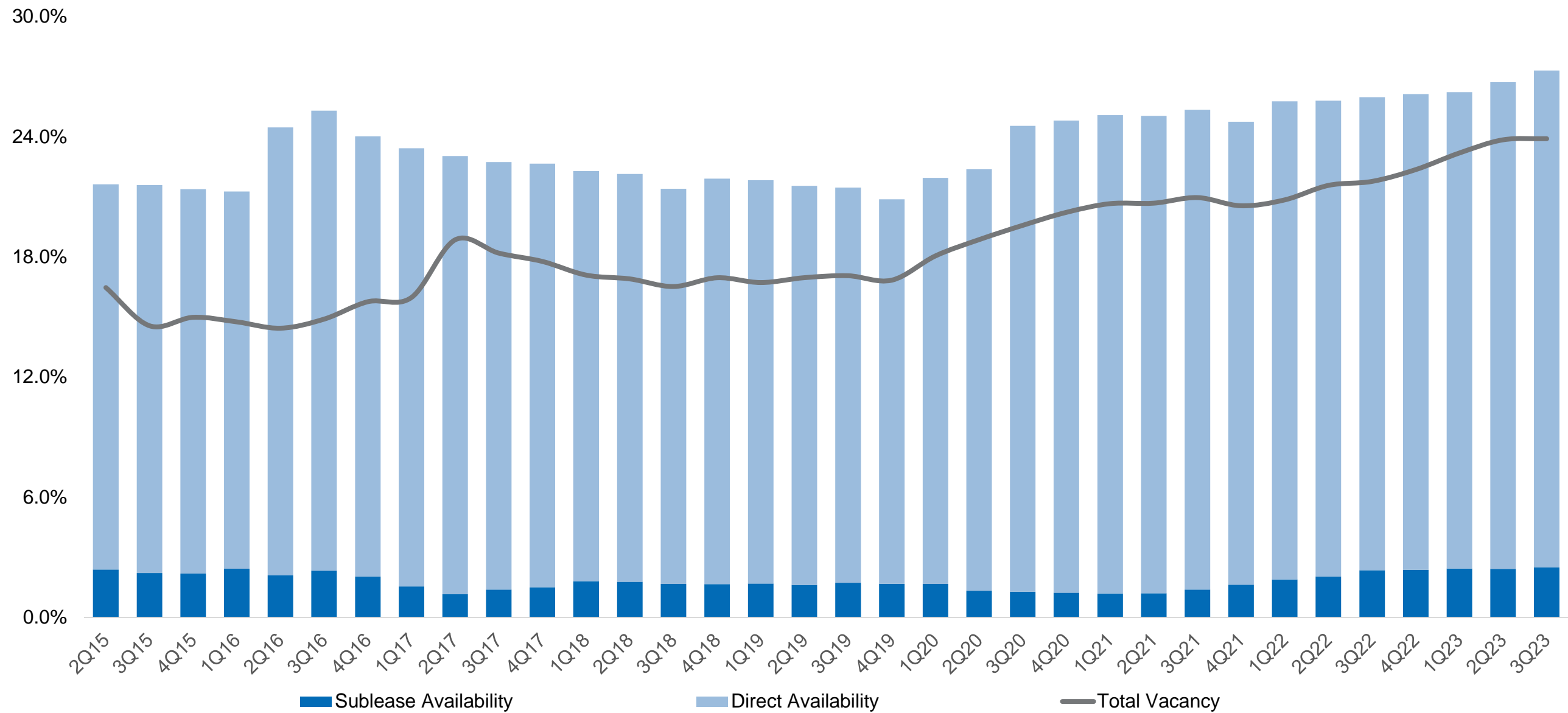


Source: Newmark Research

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

With the addition of Mastercard’s 121,000-SF space in Purchase, the direct availability rate moved up to 24.8%, from 24.3% in the previous quarter and from 23.6% a year ago. The sublease rate moved up slightly to 2.5%, from 2.4% for the past three consecutive quarters. It is worth noting that vacancy levels in Westchester County remain 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%.

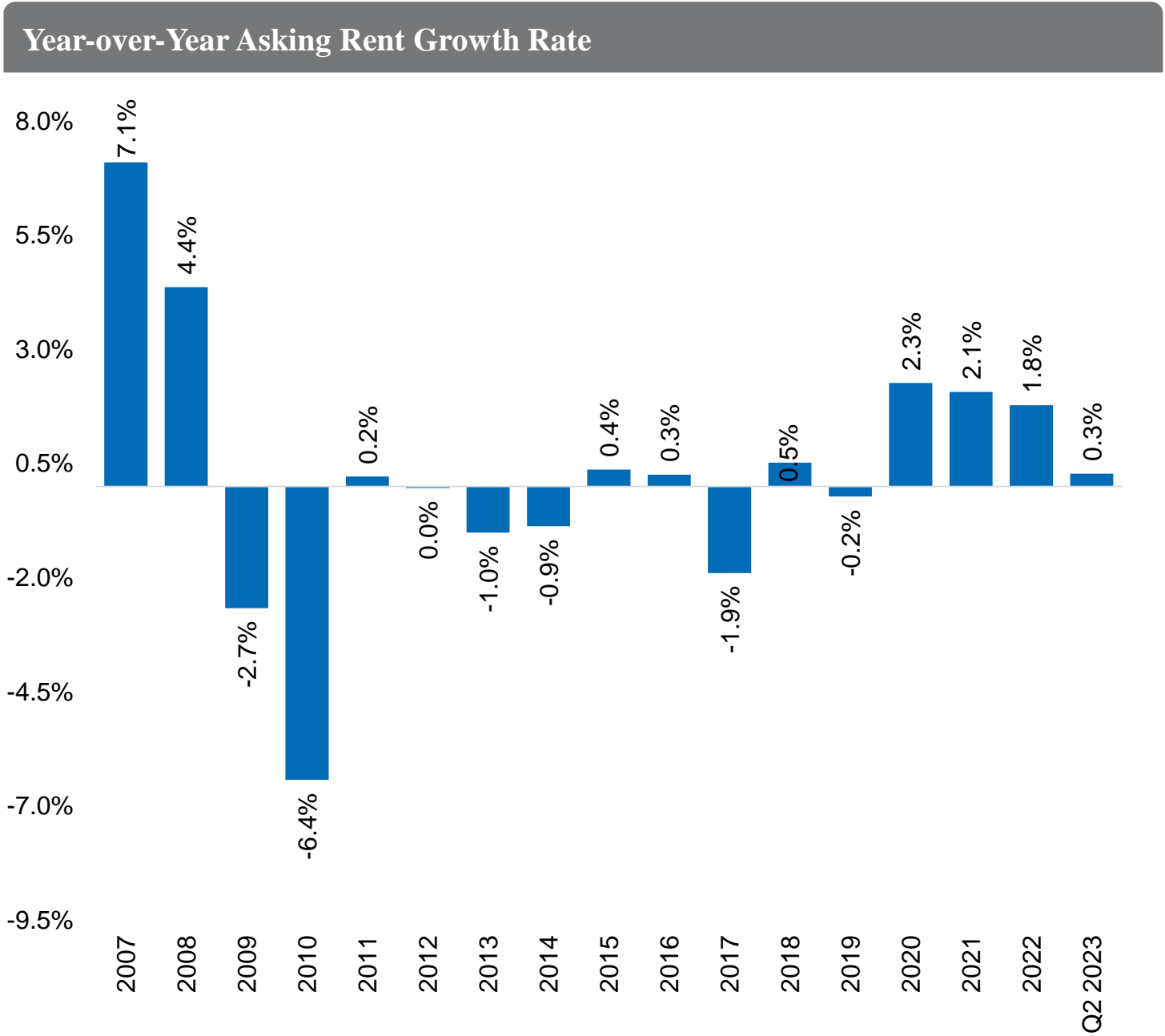
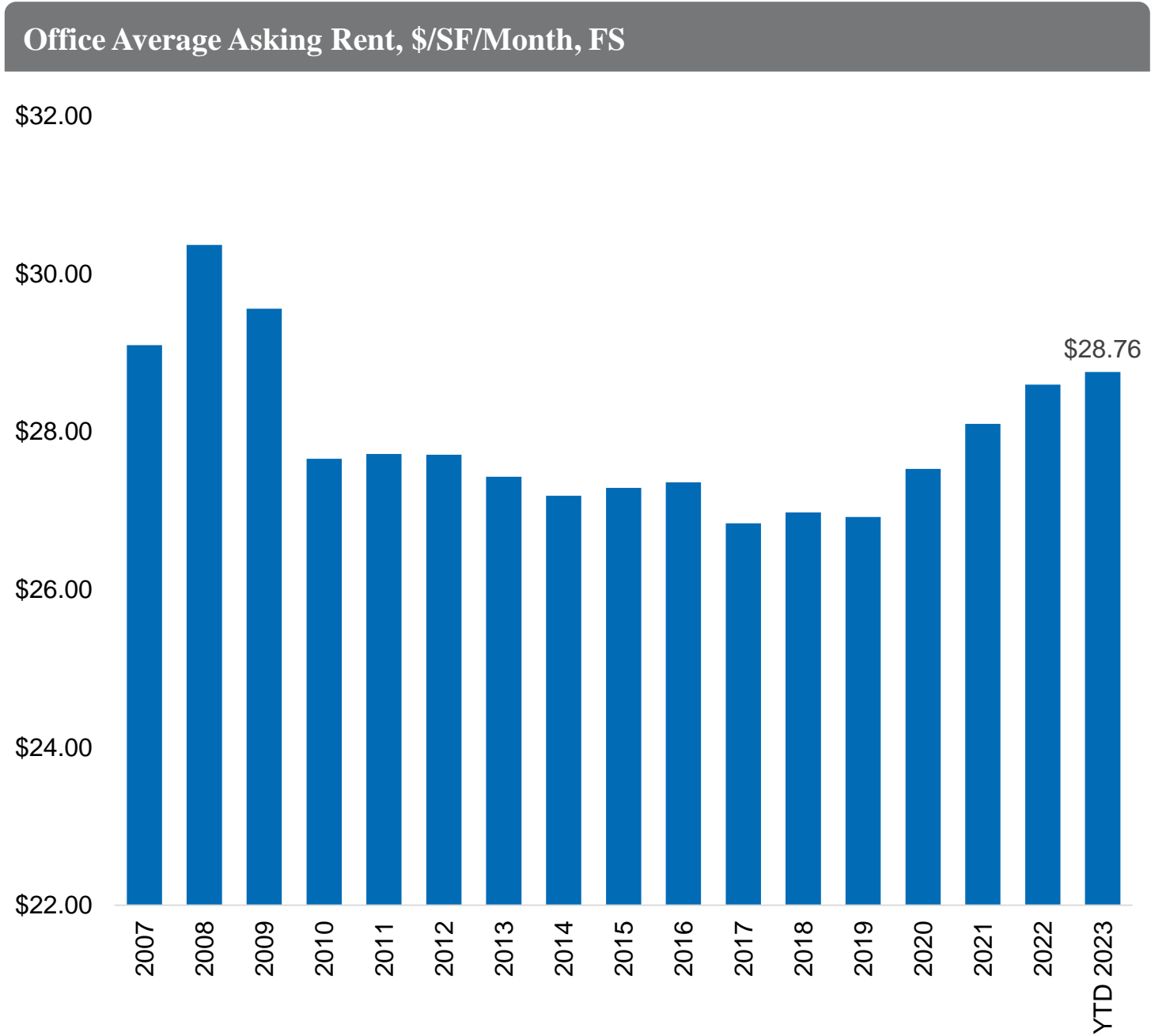
Available Space and Tenant Demand as Percent of Overall Market



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 considerably this year. The direct average asking rent ended at \$28.91/SF, 7.4% above the 2019, pre-COVID average asking rent of \$26.92/SF.

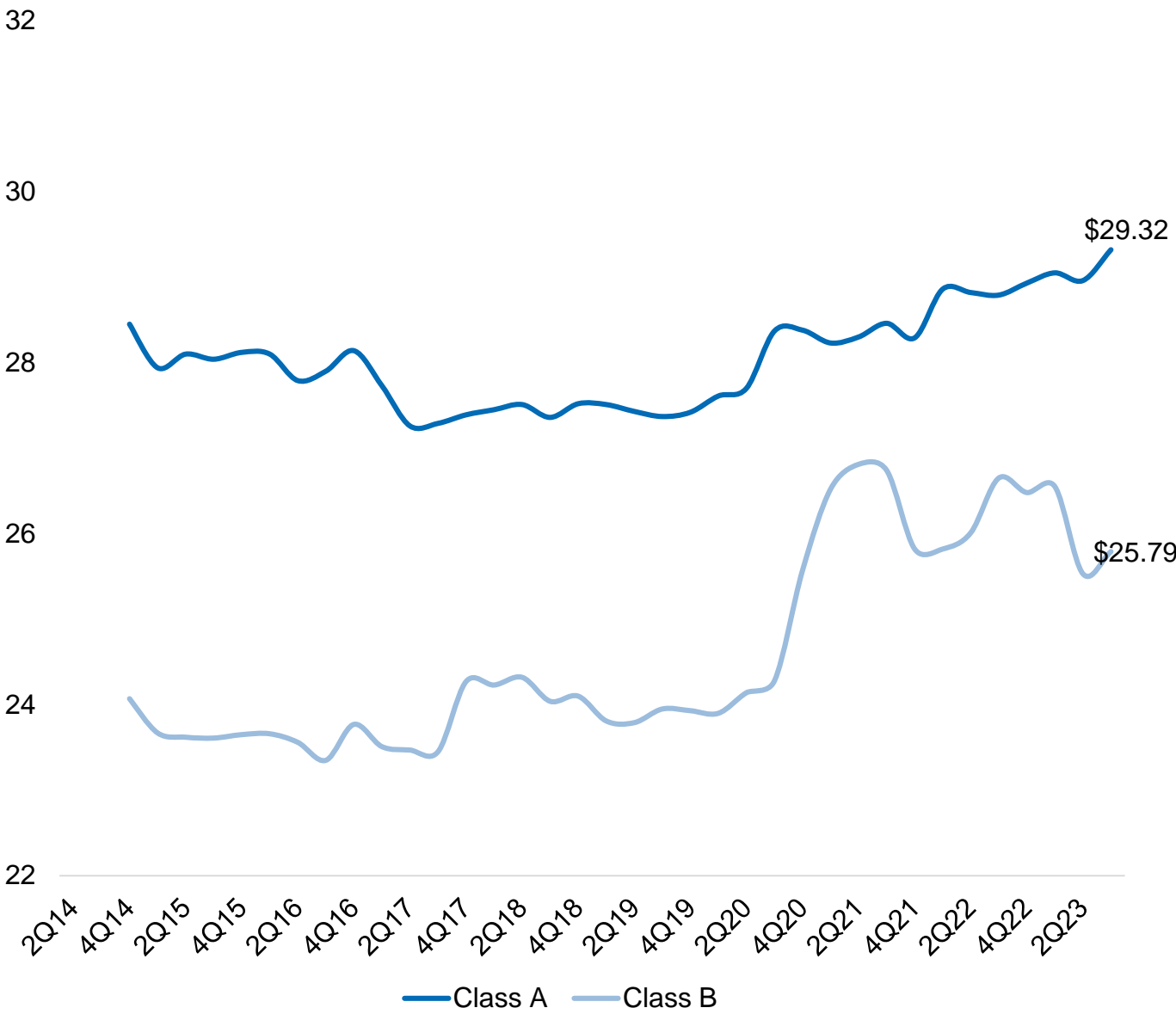


Source: Newmark Research

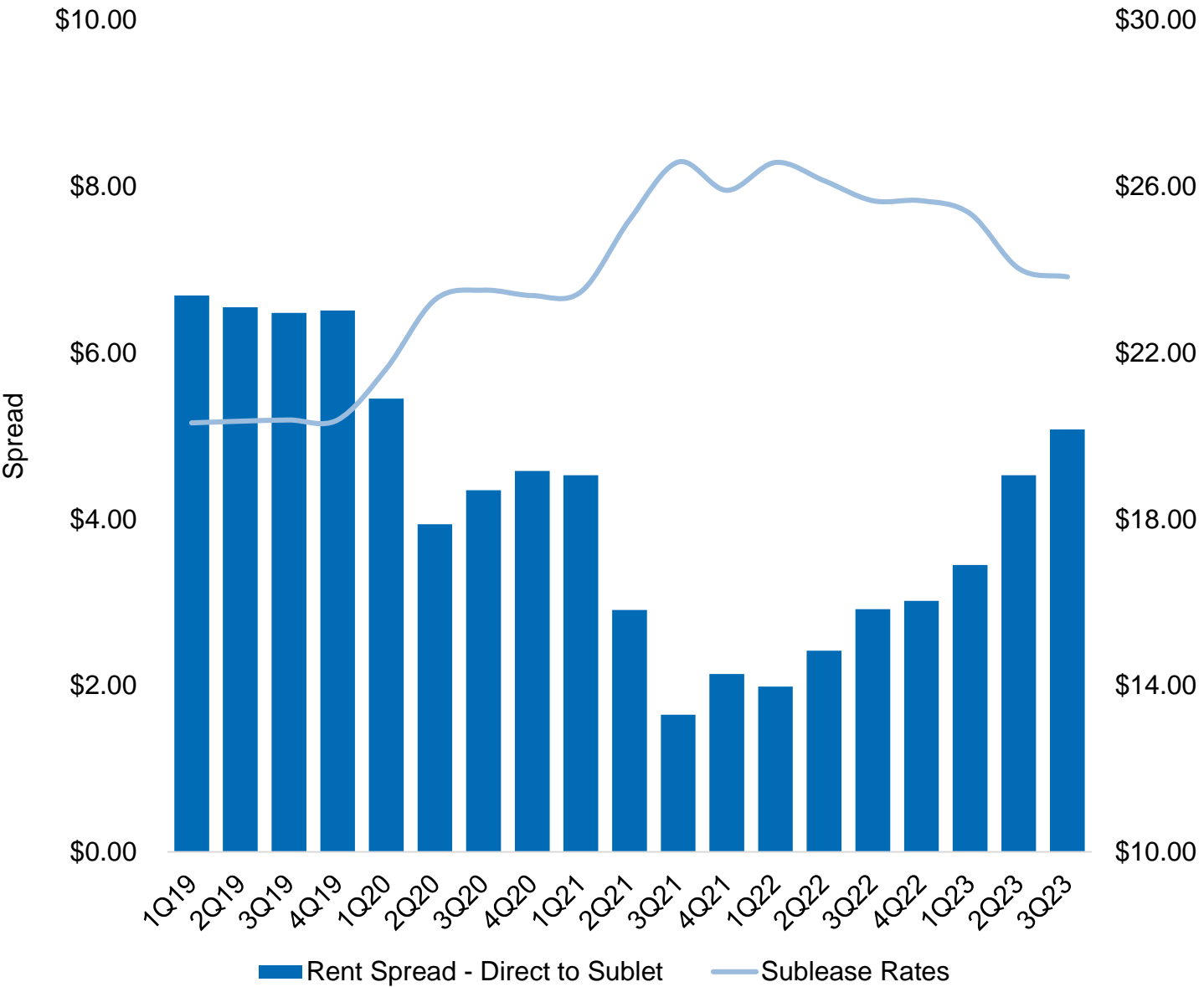
Class B Rental Rates See Steep Decline

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 \$25.79/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

Leasing Activity Remained Primarily Lease-Expiration Driven

Demand this year has been driven primarily by small size deals, or those for less than 5,000 SF. There was also an increase in deals between 5,000 SF to 10,000 SF. On the contrary, large deals are still scarce, with only one deal signed for more than 50,000 SF and no office transactions recorded for more than 100,000 SF since 2021 when Amalgamated Life Insurance renewed for 105,000 SF in White Plains.

Notable Midyear 2023 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
FUJIFILM Holdings America Corporation <i>Early renewal and downsize of approximately 65,000 SF</i>	200 Summit Lake Drive	Valhalla – North	Renewal	57,514
JP Morgan Chase Private Banking <i>Tenant adding an additional 5,350 SF to its footprint</i>	925 Westchester Avenue	White Plains – East I-287	Renewal, Expansion	34,363
Sprague Energy	440 Mamaroneck Avenue	Harrison – East I-287	Renewal	17,018
Tishman Construction (AECOM) <i>Short-term extension.</i> <i>*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</i>	303 South Broadway*	Tarrytown – West I-287	Renewal	13,895
Undisclosed Day Care Center	100 Manhattanville Road	Purchase – East I-287	New Lease	12,620

Westchester County Office Submarket Overview (Page 1 of 2)



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Westchester County Office Submarket Overview (Page 2 of 2)

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Westchester County Office Submarket Map

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