

Westchester County Office Market

Demand Remains Sluggish as Tenants Slowly Migrate Back to the Office

Westchester County's office market remained soft in the fourth quarter of 2020, as the impacts of the global pandemic profoundly changed the office-using sector and presented challenges for both landlords and tenants alike. At the onset of the pandemic, real estate decisions took a backseat to business continuity management and revenue preservation as health and safety remained crucial to corporate policies. Widespread uncertainty led to a vast number of firms opting for short-term lease renewals as tenants tried to figure out how much space they will need post-COVID-19. Remote work also became the norm for most office users. However, as the year came to an end, and news of a vaccine distribution spread, a sigh of relief was felt throughout the market and some tenants started gradually returning to office settings.

After a Period of Sustained Gains, Fundamentals Weaken

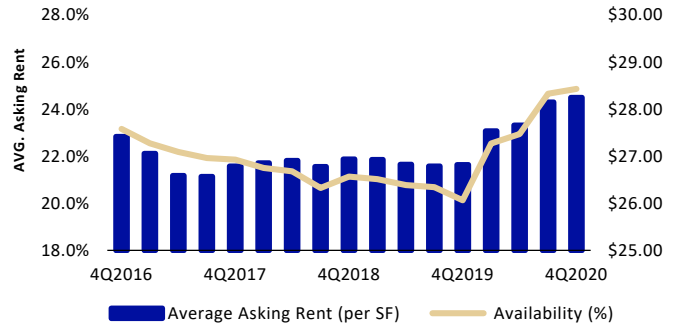
In the last 12 months, the county's availability rate increased by a total of 4.8 percentage points, to end the year at 24.9%. This is also the fourth consecutive quarter of negative absorption, after a long period of occupancy gains. Between 2017 and 2019 the market absorbed approximately 750,000 square feet. This year, net absorption finished with negative 1.3 million square feet. This was due to a combination of sluggish leasing activity and the addition of several large blocks of space, particularly in the East I-287 Corridor, where availability jumped by nearly ten percentage points over the past year to 22.3%. There were seven blocks of space greater than 50,000 square feet officially reflected on the market's statistics this year, including 380,000 square feet by PepsiCo at 1111 and 1129 Westchester Avenue in Eastern White Plains; 187,181 square feet by Avon at 601 Midland Avenue in Rye; 155,649 square feet by Alliance Bernstein at Gateway in Downtown White Plains and 101,603 square feet by Histogenics at 102 Corporate Park Drive in Harrison. It is worth noting that none of these blocks were added to the market because of the pandemic and most had plans to enter the market since 2019. For instance, Alliance Bernstein's space, which had been marketed on a sublease basis, was a move pertaining to its long-planned headquarters relocation to Nashville, Tennessee.

Current Conditions

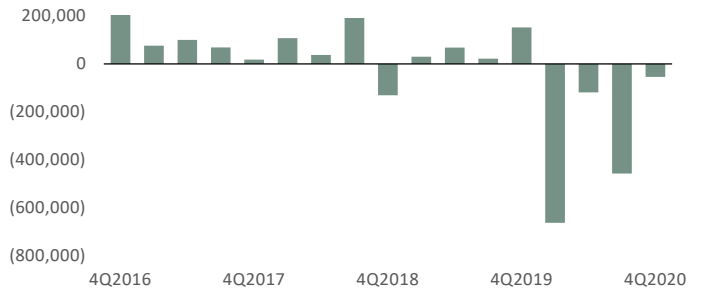
- Leasing activity totaled 1.2 million square feet in 233 deals, the lowest level in the county's recorded history.
- In the last twelve months, the county's availability rate increased by a total of 4.8 percentage points to end the year at 24.9%.
- With larger and relatively pricier space coming online this year average asking rental rate increased by 5.3% year-over-year, to \$28.25/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	24.9%	24.7%	20.1%	↑
Net Absorption (SF)	(54,023)	(457,225)	152,505	↓
Average Asking Rent/SF	\$28.25	\$28.15	\$26.82	↔
Under Construction (SF)	0	0	0	↓

Leasing Activity Dropped to Record Levels

Leasing activity, including renewals, totaled approximately 1.2 million square feet in 233 deals. This was the lowest level of leasing in the county's recorded history. For comparison, during the 2008 financial crisis, leasing activity in Westchester County totaled slightly more than 1.6 million square feet. This year's leasing represented a decrease of 34.6% from 2019's total leasing volume and a decrease of 42.0% from the five-year historical annual leasing average of 2.0 million square feet. The fourth quarter was the most inactive, with only 265,000 square feet of deals signed, significantly below the 550,000-square-foot historical leasing average for fourth quarters. In terms of number of transactions, there were 52 deals less than in 2019 and 66 deals less than the historical average.

Significant decreases in demand were seen in the Southern market, down 89.0%, and in the Northern market, down 42.2%. Although the White Plains Central Business District also registered a decrease in leasing, it fared better than the rest of the markets, with only a drop of 16.9% over the past year. In fact, the three largest deals completed in 2020 were signed in Downtown White Plains. Despite that, availability in this market grew from 17.2% in fourth-quarter 2019 to 21.2%.

Despite Uncertainty, Taking Rents Have Held Steady

With larger and relatively pricier space coming online this year in both the East I-287 and Downtown White Plains markets, the county's weighted average asking rent increased by 5.3% year-over-year, to end at \$28.25/SF. Taking rents, on the other hand, have held steady across the board. Landlords' competition differs for small versus large tenants. For smaller tenants, there has not been a dramatic shift in starting rents

or the typical work letter. Instead, landlords have been willing to compromise on allowing for flexible lease terms and rent abatement. However, some owners may begin to raise starting rents slightly as they are not willing to continue to do short-term deals to avoid setting a precedent. With a scarcity of large requirements, landlords are willing to compete more aggressively for larger tenants. Although they will maintain base rents, most are willing to give very generous concession packages.

Investment Sales

Like leasing velocity, investment sales volume declined during 2020 as market activity slowed in the face of the pandemic. Office property sales in Westchester County reflected a significant decline from previous years. A total of 4.2 million square feet of office trades were completed in 2019, for a total of \$667.0 million. This included Mack-Cali's Westchester County office and flex portfolio. In 2018, a total of 3.1 million square feet traded for approximately \$390.0 million. By comparison, there were only 1.4 million square feet in office sales transactions for \$217.0 million in 2020.

Outlook

Market fundamentals are expected to continue to fluctuate in the near term as the impact of the pandemic lingers. The work-from-home trend is already having significant implications for the real estate industry. Not all firms are willing to stretch on the remote work experiment, as many don't believe it to be sustainable in the long-term due to setbacks including lack of teamwork, projects taking longer and complications arising from hiring, training and mentoring of new employees.

Top 2020 Lease Transactions

Tenant	Market	Building	Type	Square Feet
Argus Information & Advisory Services	White Plains – CBD	50 Main Street	Sublease	66,303
Merrill Lynch, Pierce, Fenn & Smith	White Plains – CBD	360 Hamilton Avenue	Renewal	48,772
Sterling National Bank	White Plains – CBD	360 Hamilton Avenue	New Lease	32,000
Derma Path	White Plains – I-287 East	1133 Westchester Avenue	New Lease	31,182
PTI Inspection Systems	Hawthorne – Northern	8 Skyline Drive	Renewal, Expansion	28,000
Milber Makris Plousadis & Seidan	Purchase – I-287 East	100 Manhattanville Road	New Lease	24,341

Select 2020 Sales Transactions

Building	Market	Sale Price	Price/SF	Square Feet
3680 Hill Boulevard & 2050 Route 22*	Yorktown – Northern	\$19,150,000	\$474	40,418
140 & 150 Grand Street	White Plains – CBD	\$42,500,000	\$205	207,215
100-500 Summit Lake Drive	Valhalla – Northern	\$113,700,000	\$157	723,000
2-4 Gannett Drive	White Plains – I-287 East	\$20,000,000	\$90	223,595

* Medical portfolio sale

RESEARCH Q4 2020

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	21.2%	17,375	(198,515)	\$36.41	\$24.77
Eastern Westchester	9,408,816	0	22.3%	(51,954)	(902,353)	\$29.84	\$22.00
Western Westchester	3,738,858	0	22.8%	(9,615)	(86,521)	\$26.94	\$17.21
Northern Westchester	7,263,498	0	34.2%	(9,542)	(87,334)	\$24.75	-
Southern Westchester	1,818,378	0	15.1%	(287)	(17,552)	\$25.41	\$24.38
Westchester County	27,145,634	0	24.9%	(54,023)	(1,292,275)	\$28.25	\$23.08

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	4,377,500	0	22.2%	25,023	(186,601)	\$37.22	\$24.77
Eastern Westchester	8,333,407	0	21.1%	(59,560)	(730,324)	\$30.33	\$22.00
Western Westchester	2,613,478	0	26.6%	4,742	(85,641)	\$27.19	\$17.21
Northern Westchester	5,642,389	0	37.9%	(25,000)	(108,290)	\$24.85	-
Southern Westchester	1,143,699	0	17.8%	(3,175)	(18,580)	\$26.97	\$25.00
Westchester County	22,110,473	0	26.1%	(57,970)	(1,129,436)	\$28.73	\$23.12

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	538,584	0	12.9%	(7,648)	(11,914)	\$25.40	-
Eastern Westchester	1,075,409	0	31.2%	7,606	(172,029)	\$27.39	-
Western Westchester	1,125,380	0	14.0%	(14,357)	(880)	\$25.88	-
Northern Westchester	1,621,109	0	21.1%	15,458	20,956	\$24.08	-
Southern Westchester	674,679	0	10.7%	2,888	1,028	\$20.58	\$22.00
Westchester County	5,035,161	0	19.4%	3,947	(162,839)	\$25.38	\$22.00

Economic Conditions

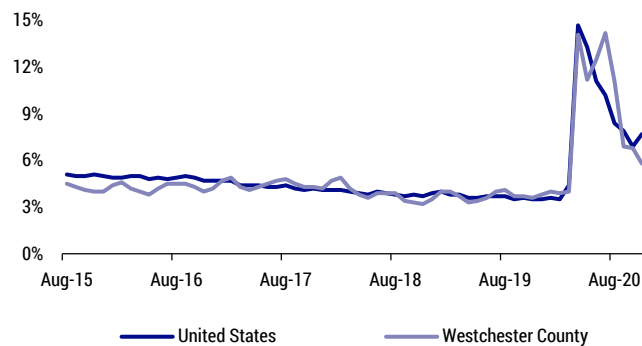
For the 12-month period ending in November 2020, private-sector employment in the Hudson Valley region fell by 73,700 jobs, or 9.0%, to 749,200 jobs. Declines in employment continued to reflect COVID-19's impact, with job count reaching its lowest November level since 2011. Within this region, the Westchester-Orange-Rockland labor market declined the fastest year-over-year, down 9.3%.

Employment numbers were negative across the board, led by leisure and hospitality (-29,700), trade, transportation and utilities (-10,300), professional services (-8,700), educational and health services (-8,600), manufacturing (-4,000) and financial activities (-2,900). Although negative, these numbers show a sharp improvement from the third quarter.

As of November 2020, Westchester County's unemployment rate stood at 5.8%, down 1.0% since the end of third-quarter 2020.

Unemployment Rate

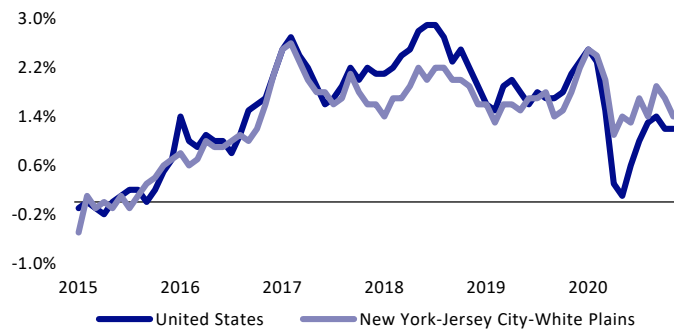
Westchester County Area (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

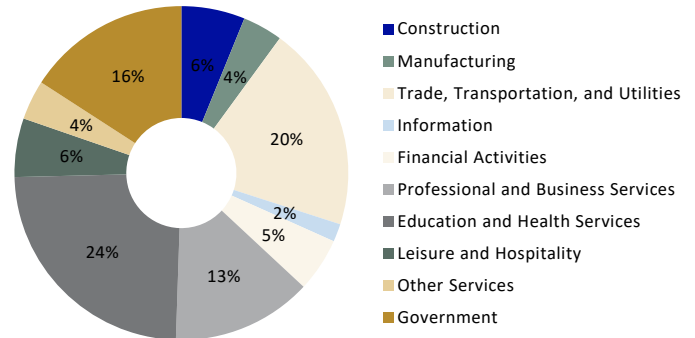
All Items, 12-Month % Change (Not Seasonally Adjusted)



*Source: U.S. Bureau of Labor Statistics

Employment By Industry

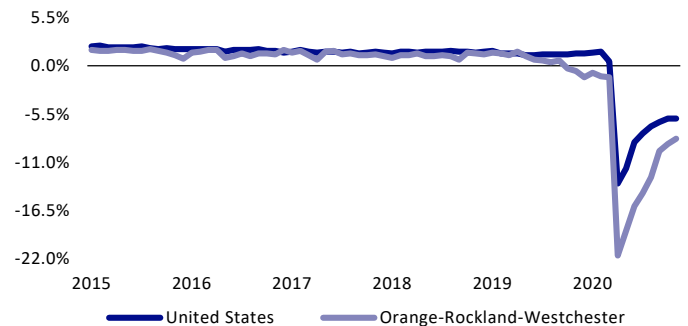
Orange-Rockland-Westchester Area



Source: U.S. Bureau of Labor Statistics

Payroll Employment

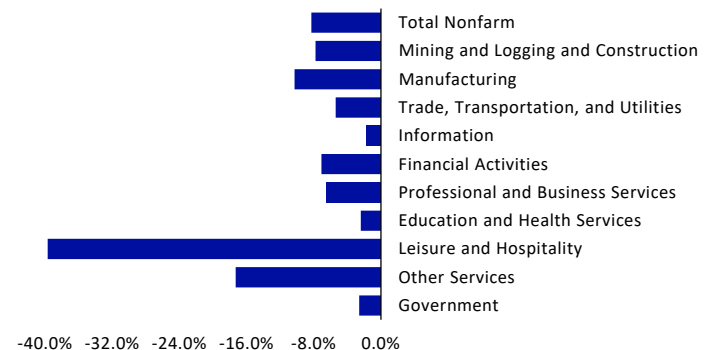
Total Nonfarm, 12-Month % Change (Not Seasonally Adjusted)



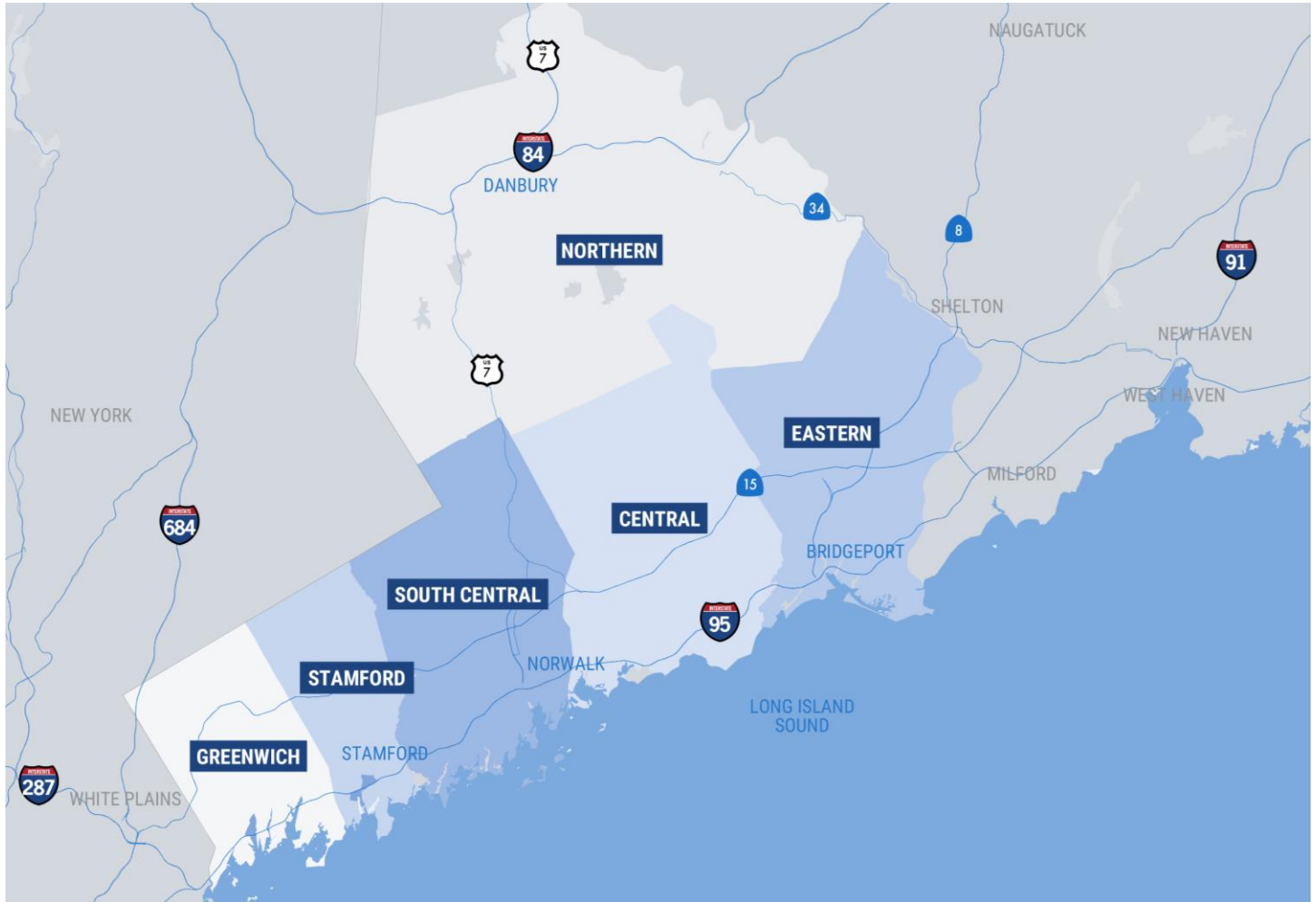
Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

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



Source: U.S. Bureau of Labor Statistics



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