

4Q23

Westchester County Office Market Overview



NEWMARK

Market Observations

Economy

- Private sector jobs in Westchester County's Hudson Valley region recorded a year-over-year increase by 6,500 or 0.8%, to 810,600. Gains were concentrated in the education and health services industry, which also showed the largest gains over the past year, followed by leisure and hospitality.
- The unemployment rate for New York state ended at 4.0%, while Westchester County's rate ended at 3.7%, both exceeding the U.S. rate of 3.5% for the month of November.
- Private sector jobs grew by just 0.8% year over year, the slowest year-over-year growth since 2020. Although the pace of growth within private sector employment has slowed, job growth continued an upward trend.
- Although office using employment in Westchester County surpassed pre-COVID levels, job growth declined in 2023. Levels dropped by 0.9% since the beginning of the year, reflecting a possible new normal for office attendance as landlords continue to adapt to the needs in employers' office usage.

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.
- Earlier this year, 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.
- 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.
- As some firms adopt cost cutting measures and footprint reductions, the educational sector has taken the opportunity to snap up unused office spaces. This year, one of the largest deals was signed by New York City-based Rebecca School, which took an entire 58,000-SF building at 1 Bradford Road in Mount Vernon.

Leasing Market Fundamentals

- Overall vacancy and availability grew to 23.6% and 26.9%, respectively, at the close of 2023. 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 19.4%.
- Leasing activity showed an improvement over the past year, ending 2023 with a total of 1.6 million SF, up 6.0% from 2022. The number of deals transacted grew by 57, from 253 in the prior year to 310 in 2023. It also comprised of 20 deals more than the 10-year historical average.
- Deals for less than 5,000 SF drove demand, capturing a third of the leasing totals, whereas large deals were scarce. Since 2021 there have been no office deals signed for more than 100,000 SF. Ongoing corporate downsizings by large tenants led to occupancy losses of 195,904 SF for the year.
- Rental growth rate softened in 2023, with the direct average asking rent ending at \$28.70/SF, slightly increased from a year ago. While concessions have remained stable, taking rents are expected to continue to see slight upward pressure amid higher operating costs.

Outlook

- The U.S. economy avoided the recession forecasted for 2023, but while a milder economic decline may still be possible in 2024, potential interest rate reductions may allow for greater flexibility and help drive activity in the market.
- Growing preference for outpatient visits will likely lead more health entities to turn to vacant traditional offices for medical office buildings (MOBs) in search for more space and new patients. Consistent occupancy and rent growth in MOBs will also likely drive demand from investors, who see an opportunity to save from building ground-up.
- The French American School is currently one of the largest tenants in the Westchester market, with a requirement ranging between 100,000 SF and 150,000 SF. With schools and private workplaces sharing design concepts, landlords are seeing an opportunity to fill their empty spaces with comparatively minimal construction work. These free-standing buildings in great park-like settings offer ideal locations for drop offs, and many of the tenant amenities, such as large size cafeterias and gymnasiums, can be reused for educational use.

1. Economy
2. Leasing Market Fundamentals

3Q23

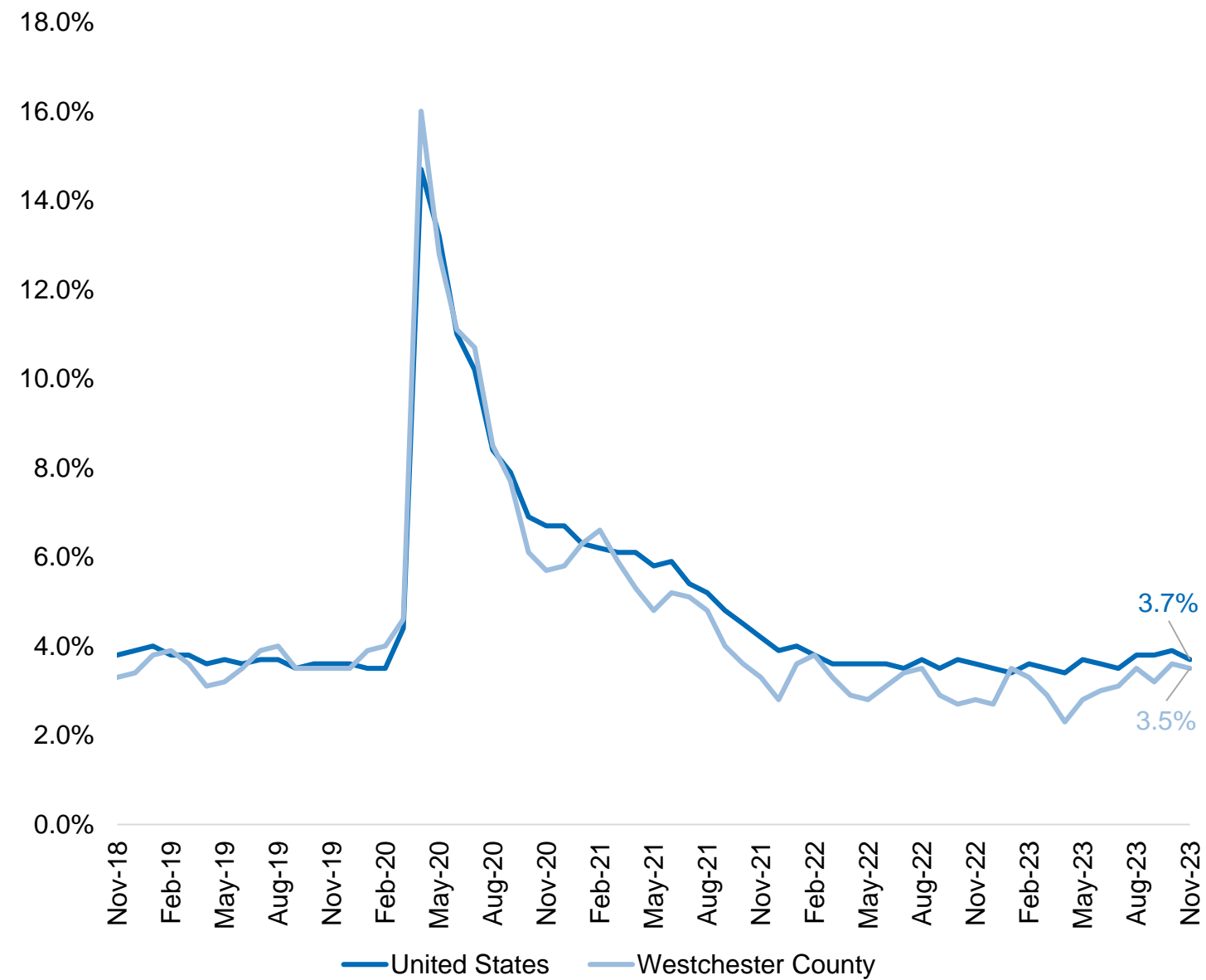
Economy



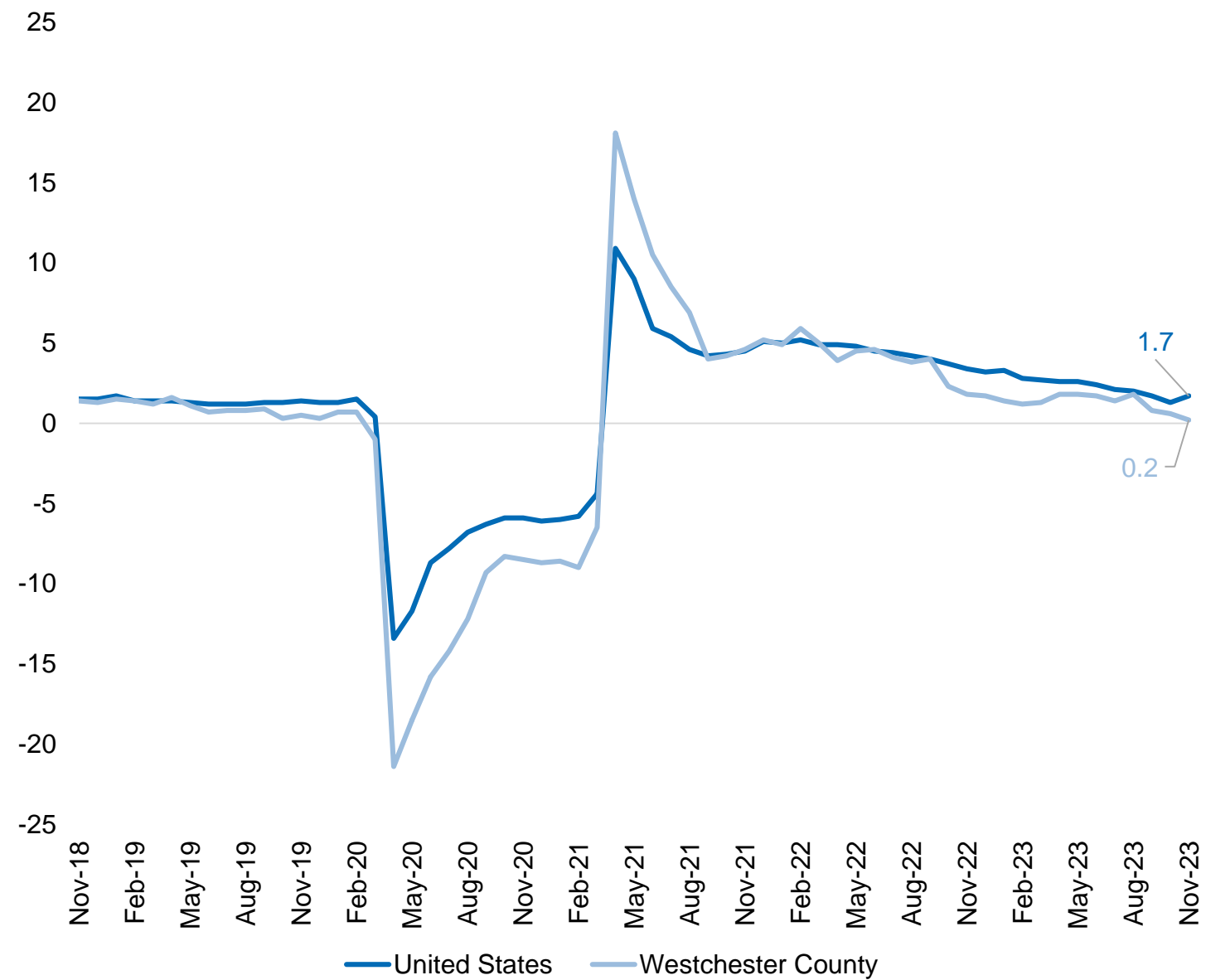
Metro Employment Trends in Westchester County

In November, the unemployment rate ended at 3.7% in the United States and 3.5% in Westchester County. Nonfarm jobs grew by 6,500 year over year, increasing by 0.7% and total private jobs increased by 6,500 year over year, increasing by 0.8%. Government jobs remained unchanged year over year.

Unemployment Rate, Seasonally Adjusted



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

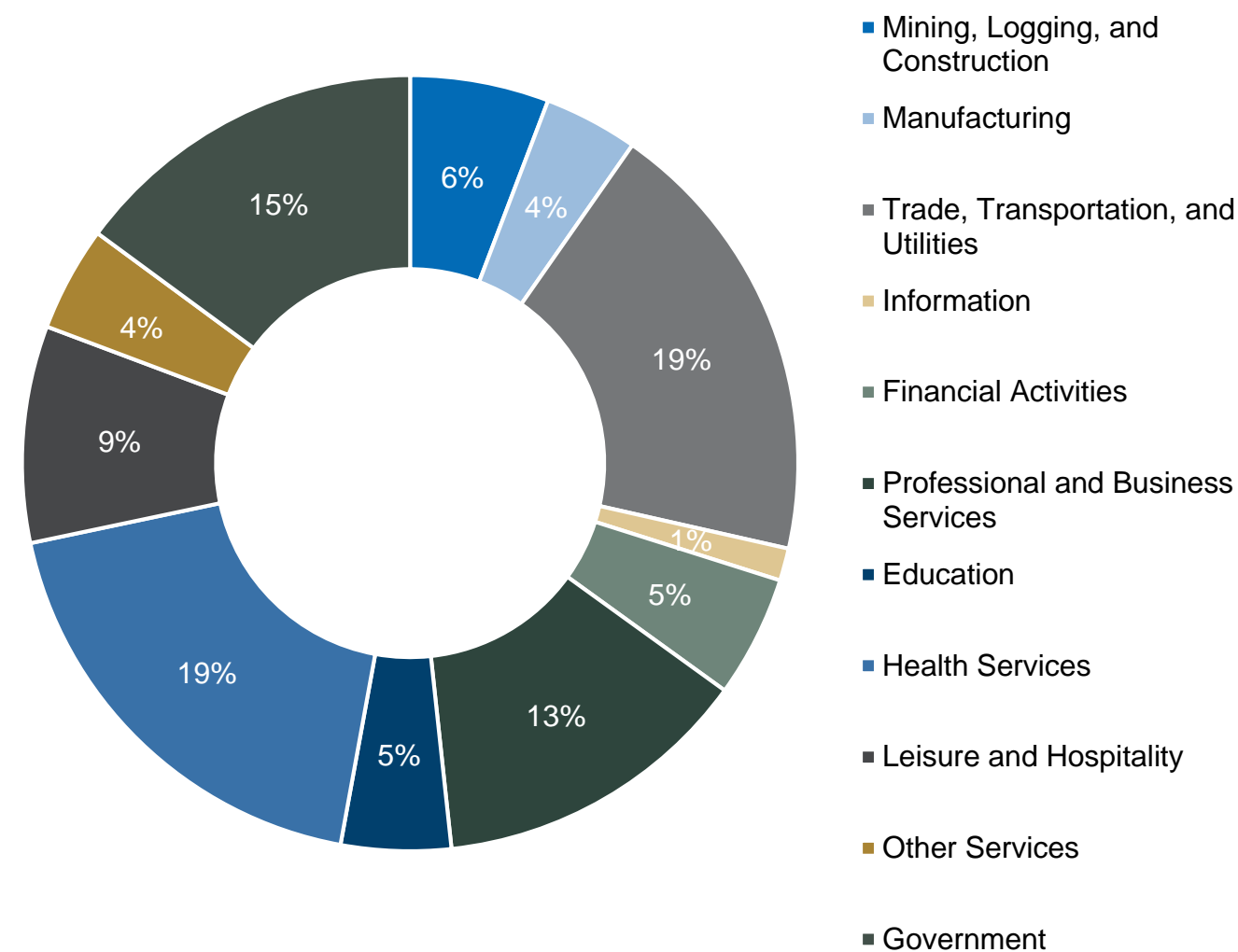


Source: U.S. Bureau of Labor Statistics, Westchester County Area (Not Seasonally Adjusted)

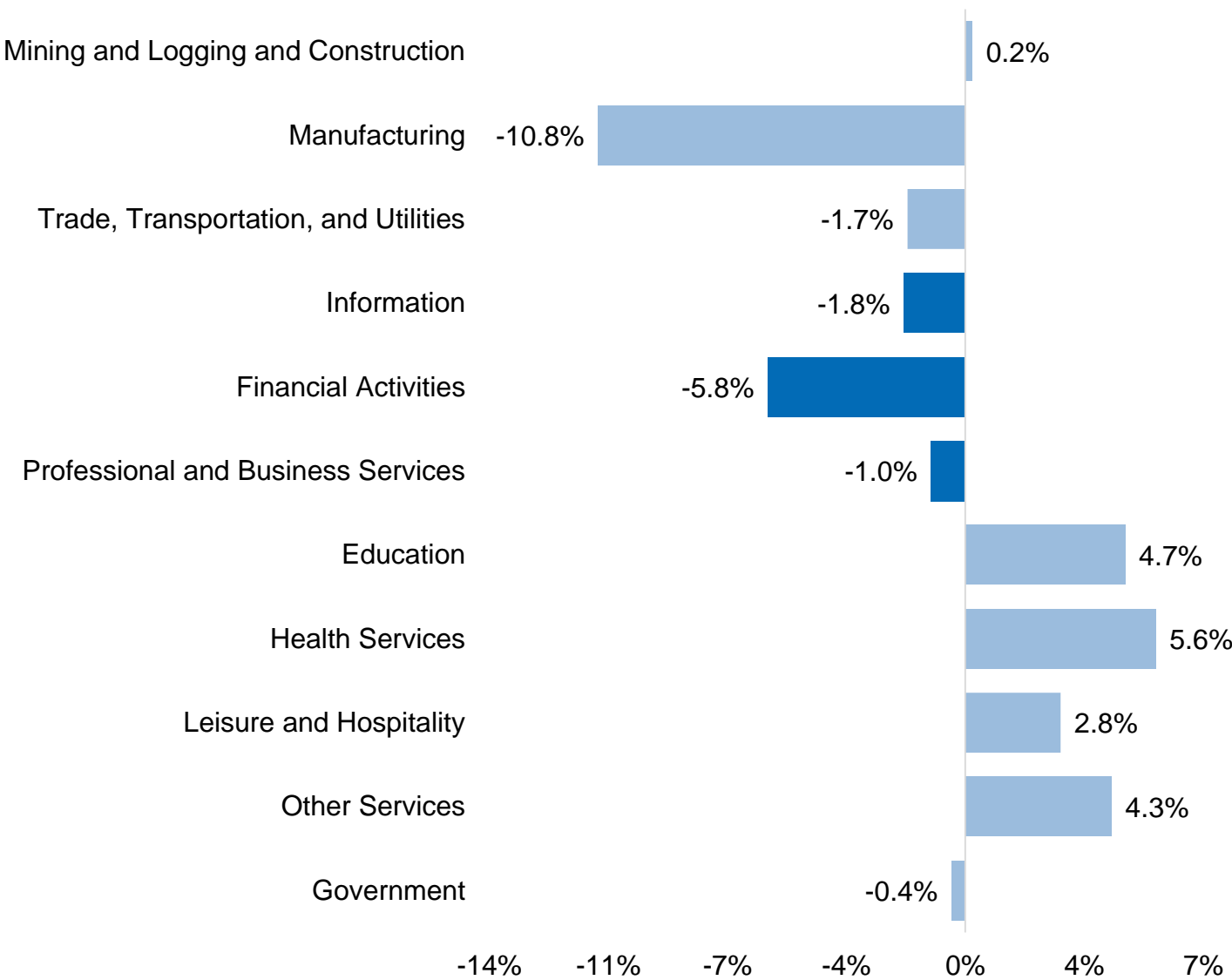
Employment Growth and Employment by Industry

The sectors with the largest year-over-year growth in November were private education and health services (+10,400), leisure and hospitality (+5,800) and other services (+1,500). Employment losses were centered in construction (-5,100), trade, transportation and utilities (-2,800), professional and business services (-1,600), manufacturing (-800), information (-600), and financial activities (-300).

Employment by Industry, November 2023



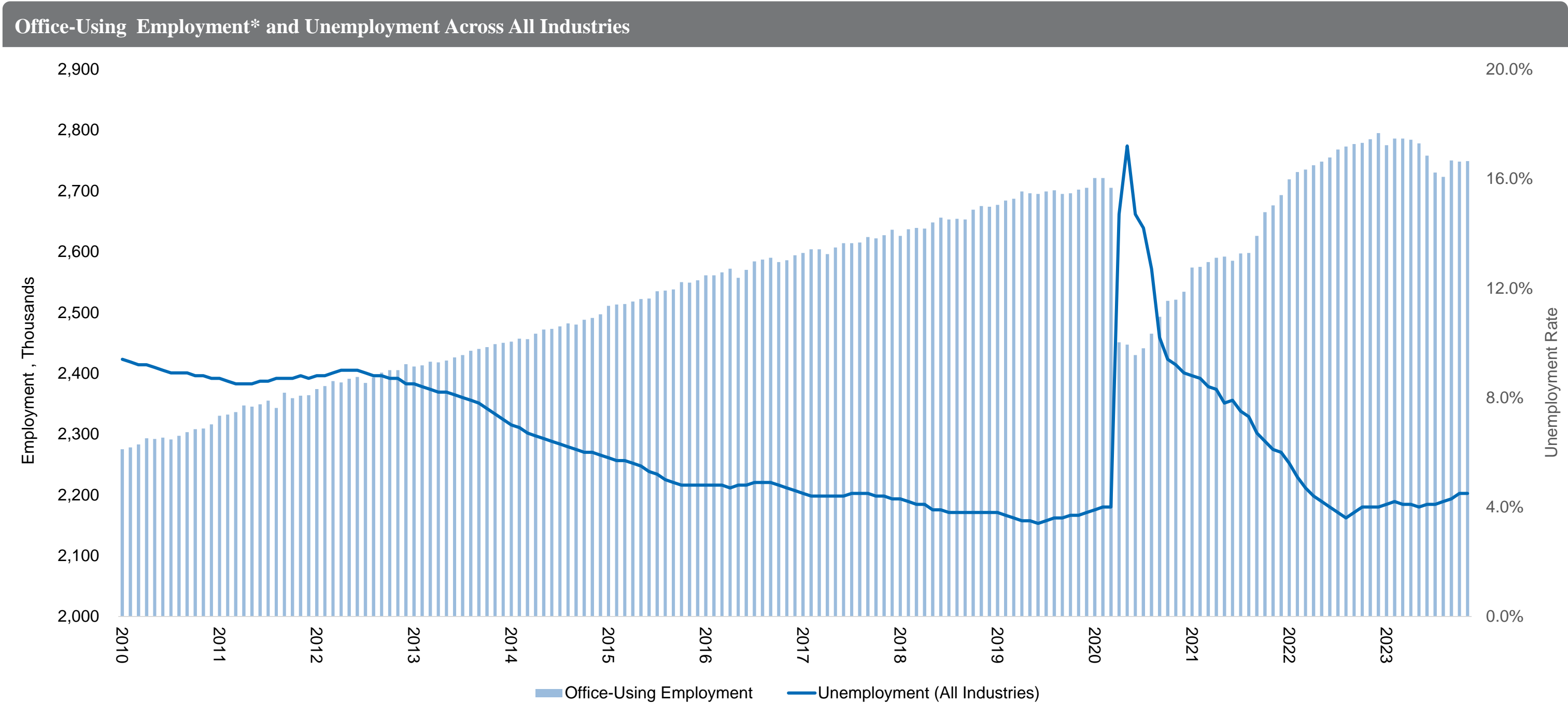
Employment Growth by Industry, 12-Month % Change, November 2023



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

Office-Using Employment Trending Down

Although office using employment in Westchester County has rebounded and is now higher than pre-pandemic levels, the growth was slower in 2023.



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.

3Q23

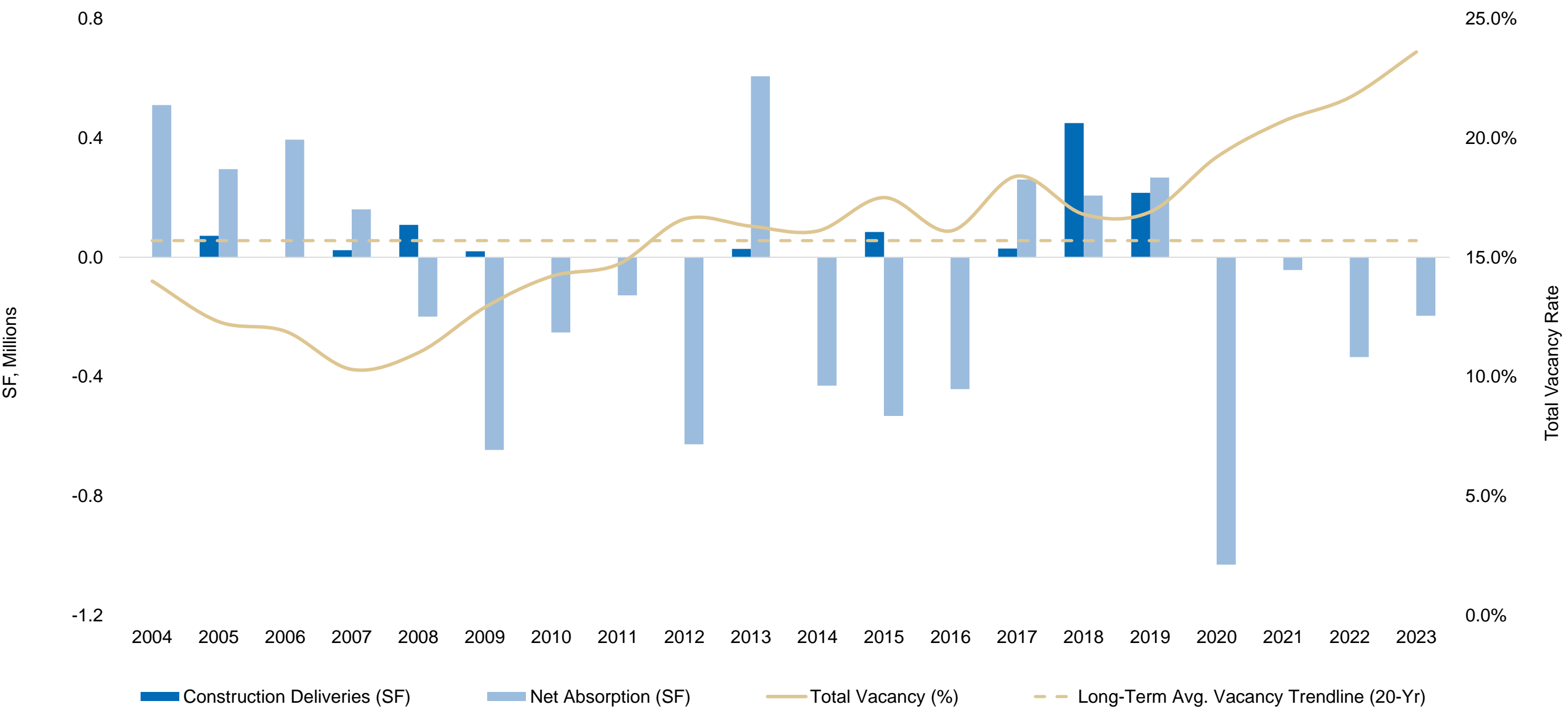
Leasing Market Fundamentals



Vacancy Rates Climbed to New High as Firms Continued to Right-Size

The county's total vacancy rate increased to 23.6% at the close of 2023, up from 22.4% at this time in 2022. Net absorption retracted by 195,904 SF, as some large tenants shed unused office space and leased smaller footprints in higher-quality assets.

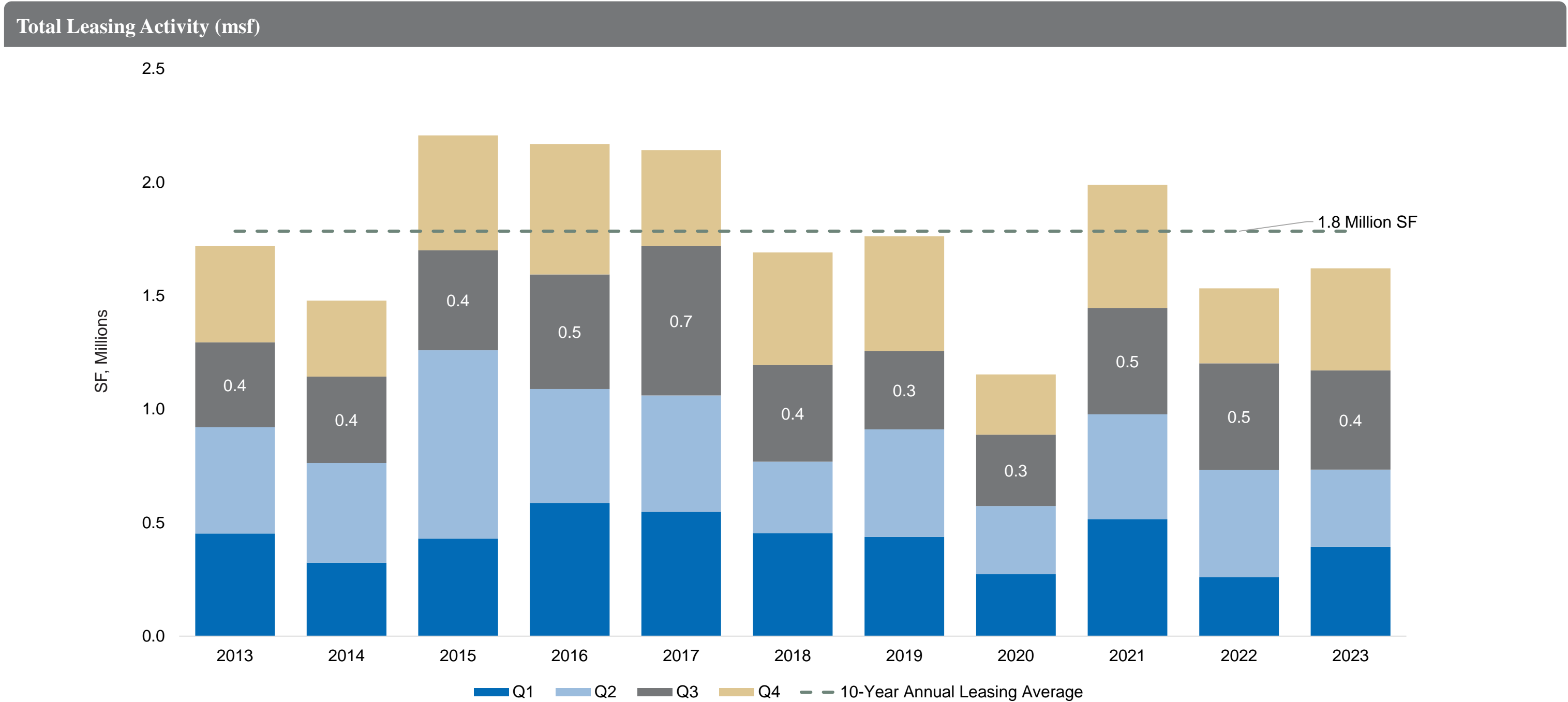
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity up by 6.0% Over the Past Year, but Figures Remain Below Historical Average

Leasing activity ended with just over 1.6 million SF in 2023, up by 6.0% over the past year, but remaining below the 10-year historical average of nearly 1.9 million SF. The number of deals grew by 57, from 253 completed in 2022 to 310 this year. Small size deals were prevalent this year, while deals for more than 25,000 SF were scarcer than in previous years

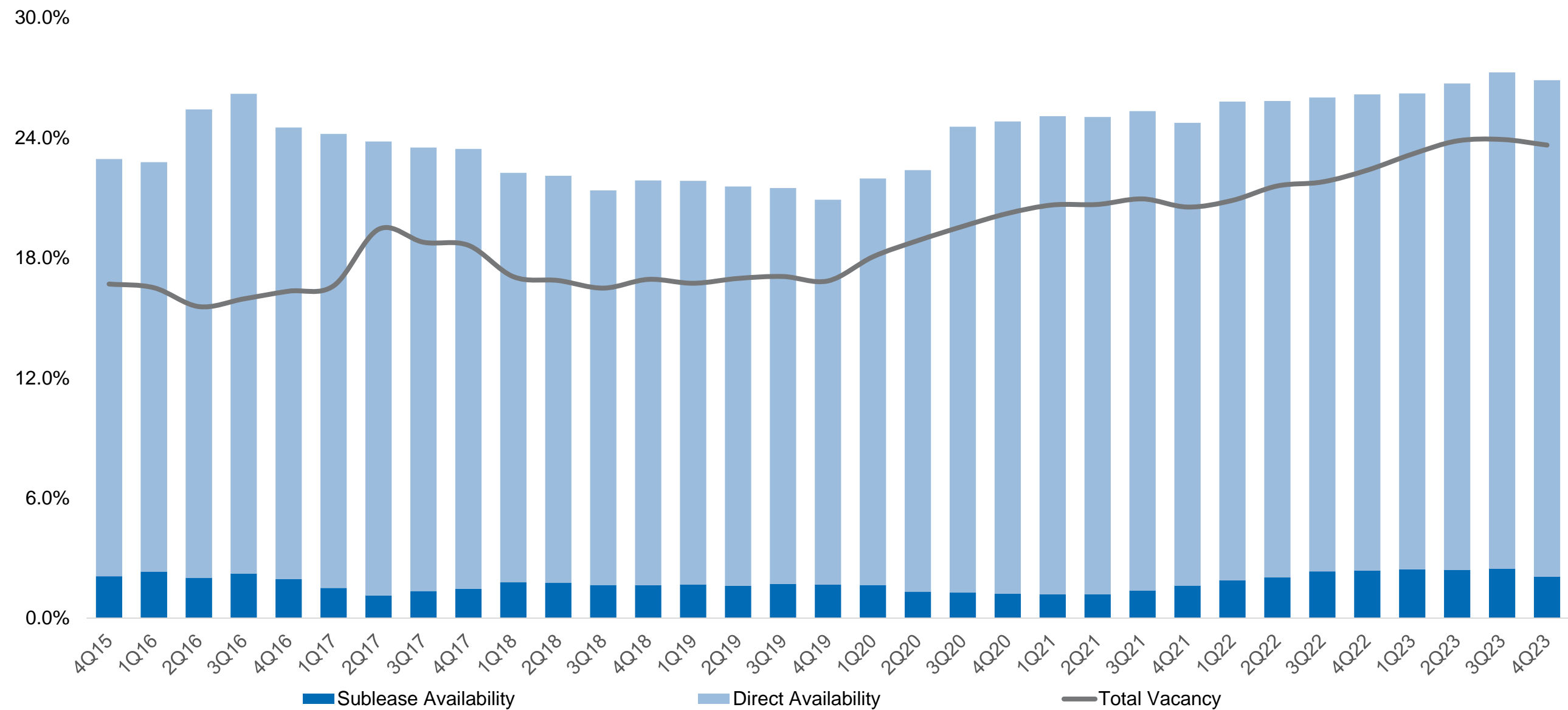


Source: Newmark Research

Availability Hovering 27.0%, but Rate Remains Skewed by Large Obsolete Block in the North

Total availability rate ended at 26.9%, improved from the 27.3% rate recorded in the third quarter but 0.7 percentage points higher than a year ago. The total vacancy rate ended at 23.6%, also higher than the 22.4% level from last year. It is worth noting that vacancy levels in the 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 19.4%.

Available Space and Tenant Demand as Percent of Overall Market

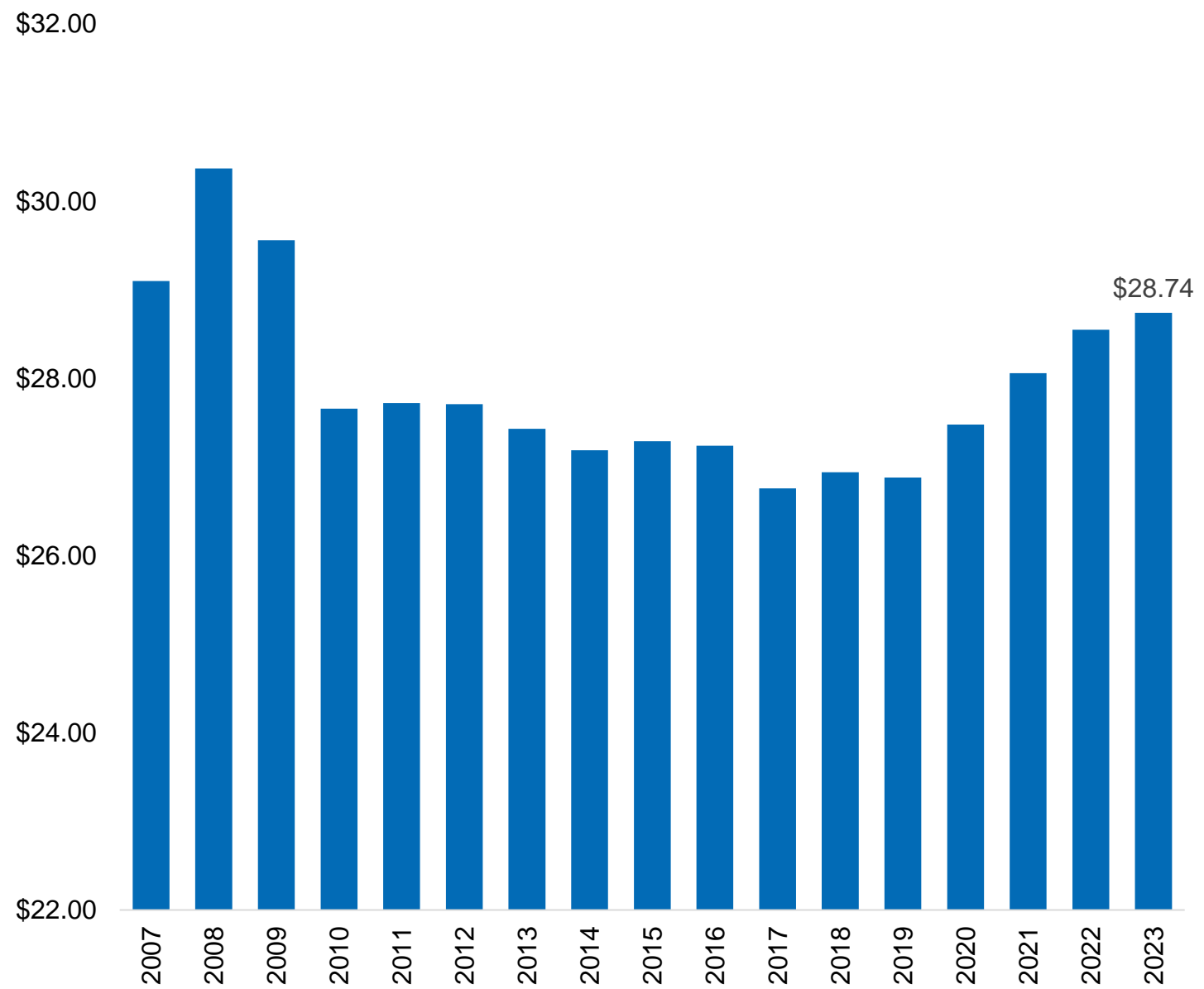


Source: Newmark Research

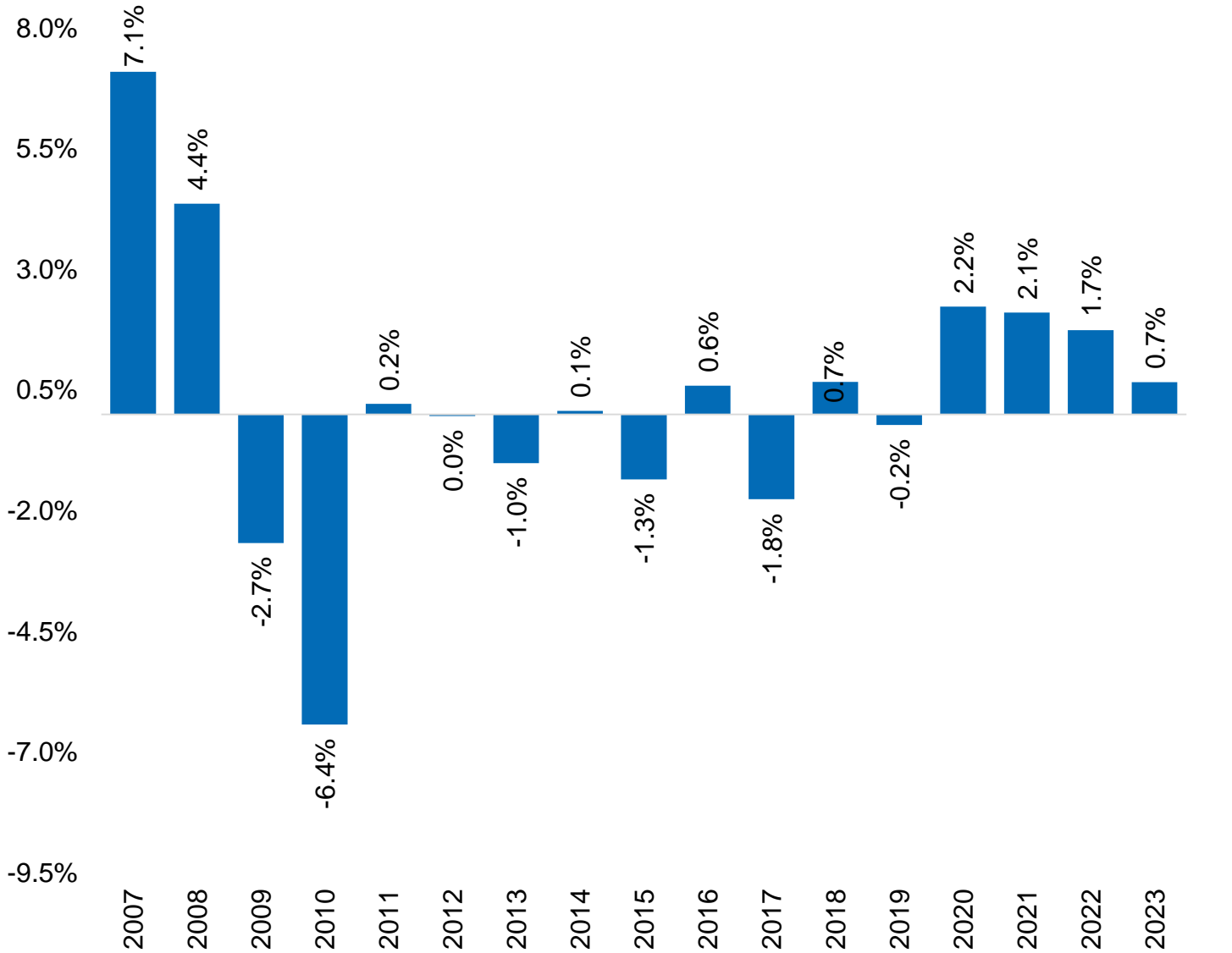
Amid Higher Operating Costs, Market Continued to Show Steady Increase in Rents

Average asking rents continued trending upwards since the pandemic, though the growth rate softened considerably in 2023. The direct average asking rent ended at \$28.74/SF, 6.8% above the 2019, pre-COVID average asking rent of \$26.92/SF.

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



Year-over-Year Asking Rent Growth Rate

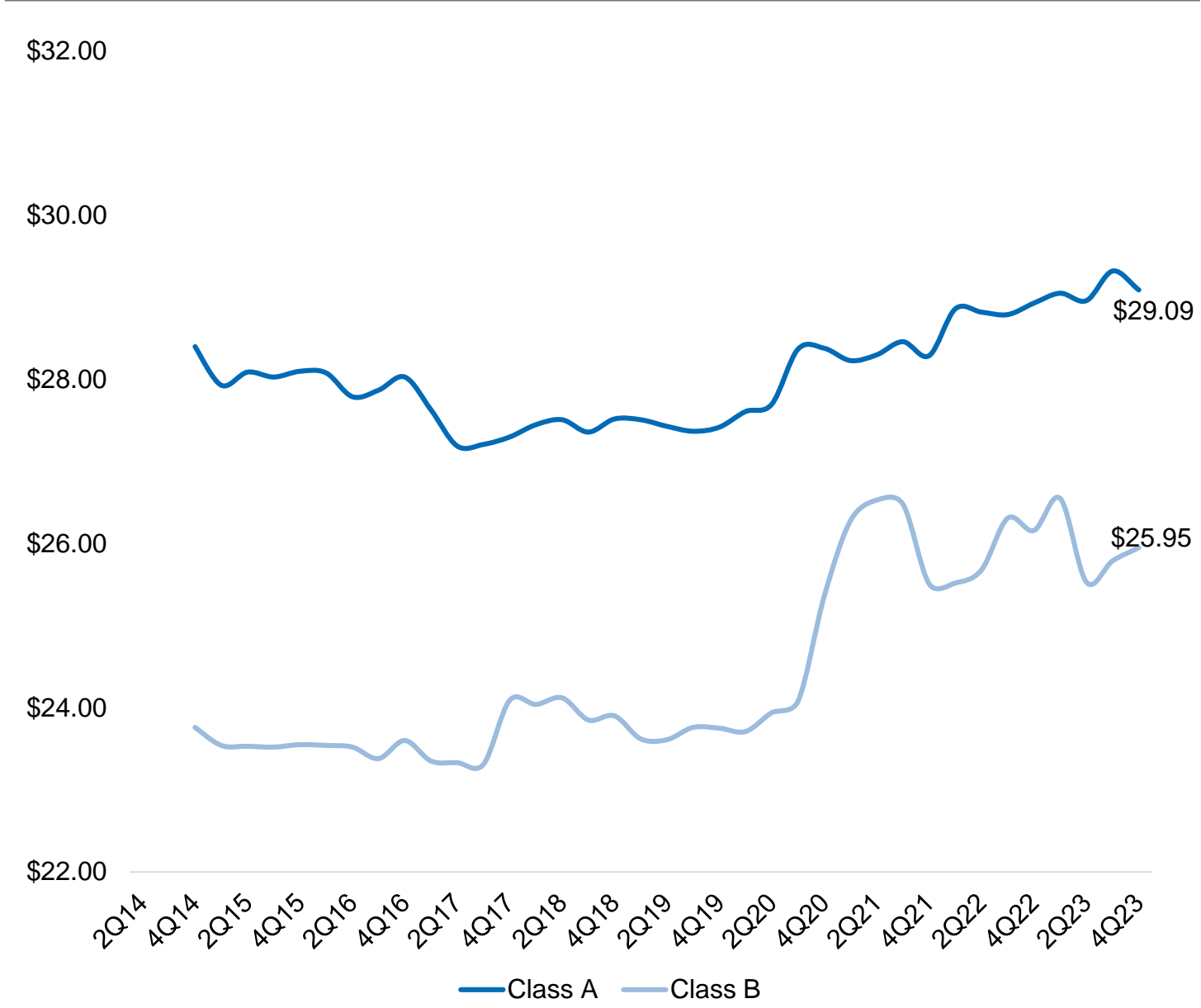


Source: Newmark Research

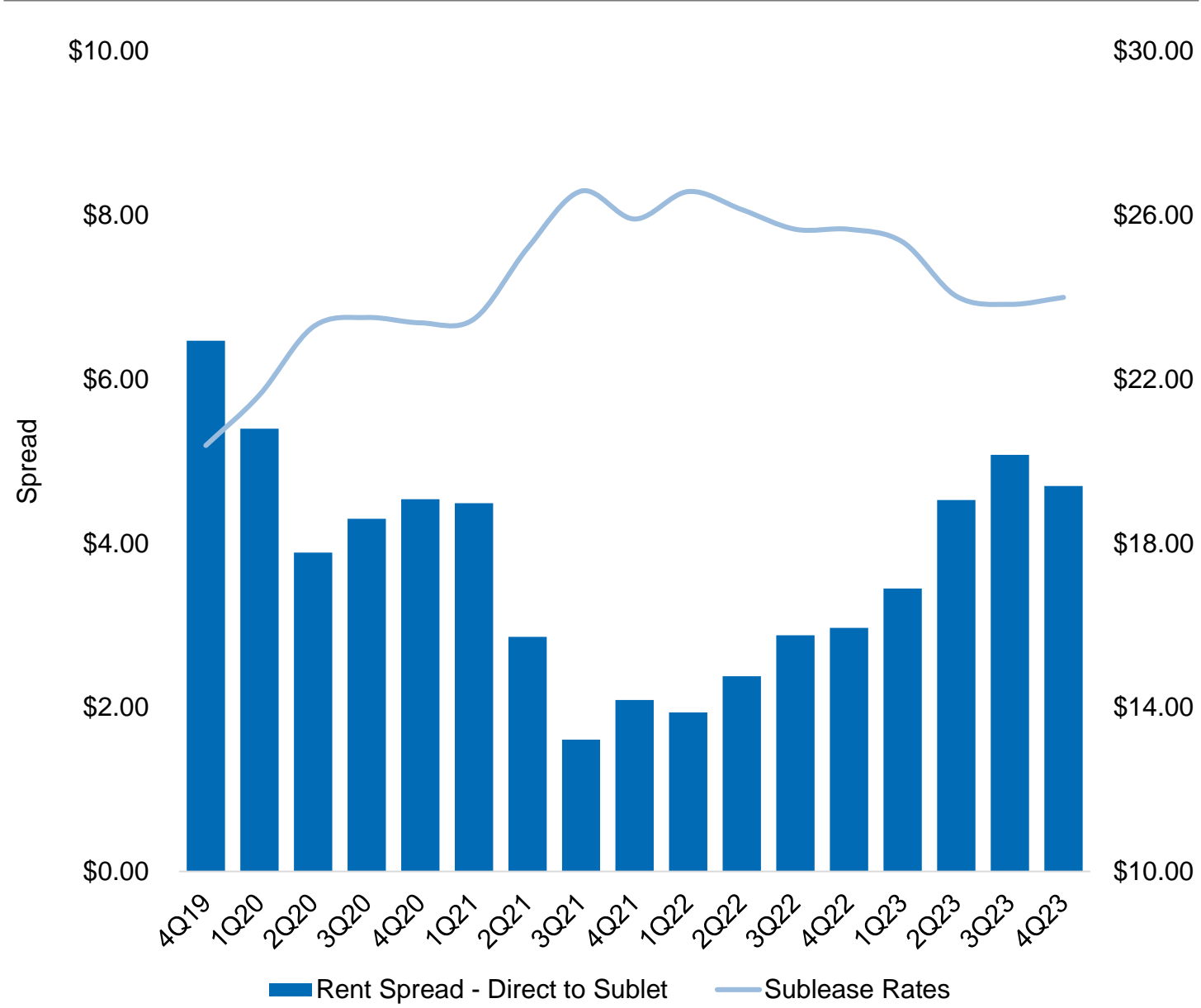
Rent Spread Between Class A and B Buildings Has Narrowed Over Time

The rent delta between Class A and B assets at the end of 2023 was \$3.14/SF, a 14.4% spread decrease since 2019. The spread has narrowed over time, and this will likely push more tenants to shed excess space and lease smaller footprints in higher-quality buildings. The increase in asking rents for Class B space since the pandemic has supported tenant’s expectations for larger concession packages.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research

Leasing Activity Remained Primarily Lease-Expiration Driven

Demand in 2023 was mainly driven by small size deals, or those for less than 10,000 SF, which captured 54% of the total leasing velocity. This represented an increase of 13% from the 10-year historical average. Deals ranging from 10,000 SF to 25,000 SF were also up nearly 20% over the past year. On the contrary, large deals were scarce, with those between 25,000 SF to 100,000 SF falling by 75%. There have been 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 2023 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Sonic Healthcare USA <i>Largest renewal in the County in the past 12 months</i>	760 Westchester Avenue	Rye Brook – East I-287	Renewal	66,544
Atlas Air <i>Sublease from Sumitomo Mitsui Banking Corp. Relocating from 2000 Westchester Avenue, where they occupy 120,000 SF.</i>	1 North Lexington Avenue	White Plains – CBD	Sublease	64,607
Rebecca School <i>*non-stat building</i>	1 Bradford Road*	Mount Vernon – South	New Lease	57,993
FUJIFILM Holdings America Corporation <i>Early renewal and downsize of approximately 65,000 SF</i>	200 Summit Lake Drive	Valhalla – North	Renewal	57,514
New York State OGS Department of Taxation	44 South Broadway	White Plains – CBD	Renewal	40,331

Source: Newmark Research

Westchester County Office Submarket Overview (Page 1 of 2)



Please reach out to your
Newmark business contact for this information

Westchester County Office Submarket Overview (Page 2 of 2)

Please reach out to your
Newmark business contact for this information

Westchester County Office Submarket Map

Please reach out to your
Newmark business contact for this information

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