

WESTCHESTER COUNTY OFFICE MARKET

DEMAND STRUGGLES AS OFFICE MARKET ADJUSTS TO “NEW NORMAL”

Westchester County market fundamentals in the second quarter of 2020 began to reflect the effects of COVID-19's disruption, which started in mid-March. Leasing activity this quarter totaled just above 300,000 square feet, a year-over-year decrease of 36.6%. Although this was an increase of 10.1% from the previous quarter, it was mainly the result of a large transaction negotiated prior to the outbreak. In a local move, Argus Information and Advisory Services signed a 66,000-square-foot sublease from Bunge at 50 Main Street in Downtown White Plains. As a result, leasing volumes in the White Plains Central Business District doubled from last quarter to 140,000 square feet.

Availability was up across the county, with the overall rate ending at 22.3%, up from 21.9% in the previous quarter and from 20.8% in the prior year. Availability for Class B space decreased slightly to 15.6%. With Class A product running tight for some time, secondary buildings saw more activity; this quarter the Class B market still reflected some of those pre-COVID-19 conditions. Rental rates, which typically lag behind by a few quarters, also reflected the tight pre-pandemic conditions. Class A asking rents averaged \$28.21/SF, up 3.0% from last year and 0.2% from last quarter. Class B rents also increased by 1.9% and 1.0% from last year and the previous quarter, respectively.

SPIKES SEEN IN I-287 EAST AND NORTH

With the exception of the White Plains CBD, all markets throughout the county saw occupancy levels fall this quarter. The most significant availability spikes occurred in the East I-287 and Northern markets. Class A availability along the East I-287 corridor jumped by 4.4 percentage points, from 13.8% in second-quarter 2019 to 18.2%. This was due to PepsiCo's 380,000-square-foot block of space, which came online at the start of the year. Leasing in this market was highlighted by Westchester Visiting Nurse Services, which took 19,603 square feet at 1311 Mamaroneck Avenue, and Schott Corporation, which took 14,140 square feet at 2 International Drive in Rye Brook. Despite these deals, leasing volumes for this market totaled only 100,000 square feet, down 21.5% from last quarter and by 39.3% from last year. In the North, availability went from 36.2% last quarter to 37.5%. This increase was mainly attributed to a 58,000-square-foot block of space from Verizon at The Summit in Valhalla. As a result, occupancy in this market shrank by 72,731 square feet in the first half of 2020. The West I-287 market saw marginal movements in availability, with Class A levels rising by 0.3% to 25.1% but edging down by 0.7% for Class B space to 12.4%. Occupancy in the South remained nearly flat and availability nearly unmoved at 14.6%.

CURRENT CONDITIONS

Leasing activity this quarter totaled just above 300,000 square feet, a year-over-year decrease of 36.6%.

New York City-based firms are increasingly looking into suburban markets like Westchester to shift some of its employees out of the city

Rental rates have not yet adjusted to reflect post-pandemic conditions. Class A asking rents averaged \$28.21/SF, up 3.0% from last year

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	27.1MSF	27.1MSF	27.6MSF	↔
Availability Rate	22.3%	21.9%	20.8%	↓
Quarterly Net Absorption	(115,658)	(486,211)	68,518	↑
Average Asking Rent	\$27.65	\$27.54	\$26.83	↔
Under Construction	0	0	0	↓
Deliveries	0	0	0	↓

RENT COLLECTION BETTER THAN EXPECTED

Rent shortfalls has been a topic of concern for property owners since the onset of the pandemic. For the most part, tenants in Westchester have paid rent, even though many are not fully occupying their space yet. In fact, rent collection was better than what most landlords expected, even though the majority of buildings have mostly empty parking lots. However, local owners are starting to see more tenants gradually come back and phase in again. Multi-tenant buildings with a lengthy tenant roster, including the small accountants and attorneys, are seeing more traffic than single-tenant buildings or buildings with large occupiers. Offices in this market are expected to repopulate quicker than in denser cities, as social distancing is less challenging in typical suburban low-rise buildings.

TELEWORK: A GROWING DILEMMA FOR EMPLOYERS

At the beginning of the pandemic, most executives were pleasantly surprised by how quickly technologies for videoconferencing and other types of digital platforms were adopted. With the majority working from home, some near-term or future requirements for space were suddenly off the table. Recently, a growing number of executives are eager to get their employees back to the office. Many believe that while the remote experiment worked well for a while, it might no longer hold beneficial, as they are noticing lower levels of productivity and inefficiencies showing in work product. This poses a challenge for New York City firms whose employees fear going back to the city so soon and therefore have to find a different location. As a result, there have been a handful of Manhattan firms looking for small, short-term satellite offices in this market. Some of these firms have come up for second visits, but no major ones have closed to date.

WHERE WILL THE MARKET GO FROM HERE?

The long-term effects of the pandemic as it relates to the office market are still unknown. Demand in the near term will continue to be driven by lease rollovers. Those tenants with impending leases expiring will have to engage the market and make significant decisions about space needs, but the ones with an option to extend short term are likely to take that route in order to gain a clearer perspective of market conditions in a post-COVID-19 world. Sublease availability, which is often an indicator of market stability, will be closely analyzed in the second half of the year. During the 2008-2009 recession, Westchester's sublease availability rate peaked at 4.3%. By quarter's end, this level ended at 1.3%, the lowest since 2017. However, a potential rise in subleases could be offset by companies taking advantage of the flexibility such offerings present, especially furnished plug and plays.

For now, business continuity decisions rest on the shoulders of leaders across all sectors as they try to safeguard employees and mitigate risks. Some will delay those choices until after Labor Day, as they take into consideration factors such as school re-openings and a possible second wave. Others want to plan ahead, as they realize that a reduction in overhead costs resulting from telework is a sacrifice in employee productivity, culture and collaboration.

TOP LEASE TRANSACTIONS – MIDYEAR 2020

Tenant	Address	Submarket	Type	Square Feet
Argus Information & Advisory Services	50 Main Street	White Plains CBD	Sublease	66,303
Sterling National bank	360 Hamilton Avenue	White Plains CBD	New Lease	32,000
Derma Path	1133 Westchester Avenue	I-287 East	New Lease	31,181
Westchester Visiting Nurse Services	1311 Mamaroneck Avenue	I-287 East	New Lease	19,603
Schott Corporation	2 International Drive	I-287 East	New Lease	14,140

TOP SALE TRANSACTIONS – MIDYEAR 2020

Building	Submarket	Sale Price	Price/SF	Square Feet
3680 Hill Boulevard	Southern	\$14,800,000	\$539	27,346
140 & 150 Grand Street	White Plains CBD	\$42,500,000	\$205	207,215
33 West Main Street	I-287 West	\$3,000,000	\$46	64,665

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	-	17.4%	20,632	-12,784	\$35.11	\$24.77
Eastern Westchester	9,408,816	-	17.9%	-64,642	-481,294	\$29.93	\$23.82
Western Westchester	3,738,858	-	21.2%	1,582	-26,776	\$26.84	\$17.21
Northern Westchester	7,263,498	-	34.0%	-65,257	-72,731	\$24.65	-
Southern Westchester	1,818,378	-	14.6%	-7,973	-8,284	\$25.31	\$24.38
Westchester County	27,145,634	0	22.3%	-115,658	-601,869	\$27.65	\$23.28

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	-	18.3%	20,632	-14,900	\$35.96	\$24.77
Eastern Westchester	8,333,407	-	18.2%	-67,239	-478,282	\$30.51	\$23.82
Western Westchester	2,613,478	-	25.1%	-6,697	-44,863	\$27.21	\$17.21
Northern Westchester	5,642,389	-	37.5%	-74,682	-84,595	\$24.82	-
Southern Westchester	1,143,699	-	16.9%	-7,973	-8,284	\$26.92	\$24.38
Westchester County	22,110,473	0	23.9%	-135,959	-630,924	\$28.21	\$23.28

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	-	10.2%	0	2,116	\$25.57	-
Eastern Westchester	1,075,409	-	15.5%	2,597	-3,012	\$24.45	-
Western Westchester	1,125,380	-	12.4%	8,279	18,087	\$25.17	-
Northern Westchester	1,621,109	-	21.7%	9,425	11,864	\$23.59	-
Southern Westchester	674,679	-	10.8%	0	0	\$20.48	-
Westchester County	5,035,161	-	15.6%	20,301	29,055	\$23.94	-

ECONOMIC CONDITIONS

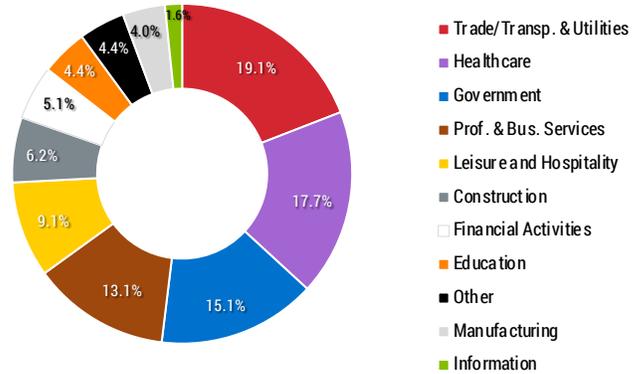
For the 12-month period ending in May 2020, private-sector employment in the Hudson Valley region fell by 165,400, or 20.1%, to 656,400. The job losses continue to reflect the impact of COVID-19, with job count reaching its lowest May level since 1995. Within this region, the Westchester-Orange-Rockland labor market area declined the fastest year-over-year, down 21.1%.

Losses were seen across the board but were the largest in leisure and hospitality (-58,700), trade, transportation and utilities (-34,200), educational and health services (-18,400), professional and business services (-16,900), other services (-16,400), natural resources, mining and construction (-12,300), manufacturing (-6,700), financial activities (-1,100) and information (-700).

As of May 2020, Westchester County's unemployment rate stood at 11.2%, the highest level dating back to 1990. This is down from 14.4% in April 2020 and up from 3.4% over the past year.

EMPLOYMENT BY INDUSTRY

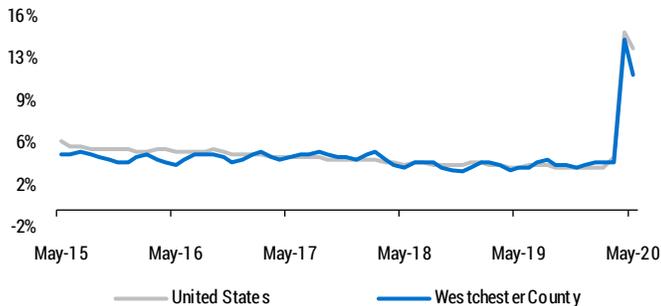
Westchester-Orange-Rockland Area



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

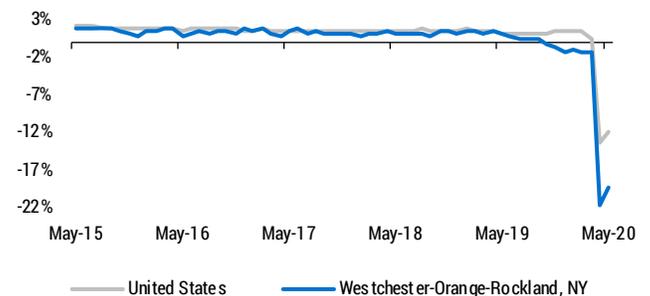
Not Seasonally Adjusted



Source: New York State Department of Labor

PAYROLL EMPLOYMENT

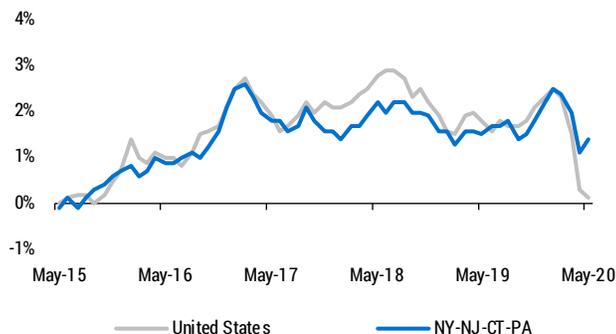
Total Nonfarm, 12-Month % Change (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

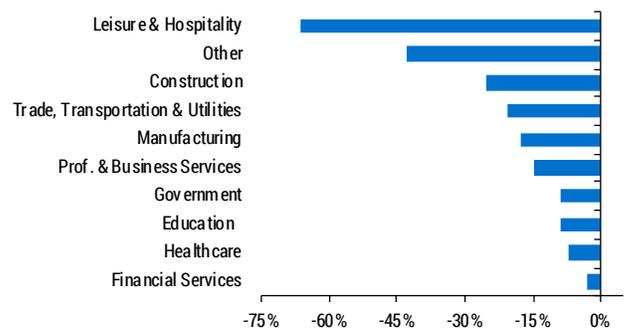
All Items, 12-Month % Change (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics



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