

1Q24

NEWMARK

Westchester County Office Market Overview



Market Observations

Economy

- Office-using employment continues to trend higher than pre-COVID levels in Westchester County, though ending 1.1%, or 31,747 positions lower year over year.
- Three of the 11 major industry sectors recorded job increases in February: leisure and hospitality, health services and government. Gains in the leisure and hospitality sector were boosted by increased interest in March Madness and St. Patrick's Day falling on a weekend, while March retail trade benefited from an early Easter.
- Year-over-year job losses within office-using industries were concentrated in the information sector (-4.3%), financial activities (-2.9%) and professional and business services (-2.9%).
- The Westchester County unemployment rate ended at 4.0% in February 2024, up from 3.3% in the prior year but remaining below the 4.2% national rate. The statewide unemployment rate ended at 4.5%, down from 4.6% a year ago.

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.
- New York Life, which leases the top 4 floors of Westchester One since 2017, a total of approximately 180,000 SF, listed two of those floors for a combined 90,000 SF for sublease through March 2030.
- Investment sales activity continues to be impacted by suppressed demand and higher interest rates. In the past year, only 8 sales for less than \$200 million were completed, compared with 15 annual sales on average. There were no office sales reported in the first quarter of 2024.

Leasing Market Fundamentals

- Despite an increase in sublease availability, overall availability and vacancy rates decreased to 26.3% and 23.1%, respectively, at the close of the first quarter of 2024. 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 18.4%.
- Leasing activity ended at 300,000 SF, a decrease of 25.0% over the past year. Demand remains primarily lease-expiration driven and several of the larger renewals and or relocations involve shedding of excess space. Deals ranging from 5,000 SF to 10,000 SF drove demand this quarter, with 31 of those signed for a total of 215,000 SF, up 40.0% from the prior year. In total, 66 out of the 71 deals registered this quarter were for less than 10,000 SF.
- The county's direct average asking rent showed a marginal 0.2% decrease from \$28.80/SF in the first quarter of 2023 to the current \$28.72/SF. Average asking rents had trended upwards since the pandemic, but the growth rate softened considerably since 2023.

Outlook

- Office space demand will remain focused on amenitized and modern spaces. As firms continue right-sizing, deals for less than 10,000 SF are likely to continue driving demand.
- Policymakers still have a way to go in cooling inflation, but the trade-offs between bringing down prices and keeping employment high are going to be heightened in 2024. With bond yields trending higher in 2024, the expectations regarding the timing and number of rate reductions by the Federal Reserve in 2024 have scaled down.
- The Westchester County office market has consistently been able to ride the waves of a down market with activity originating from the health, education and government sectors, and with no surge in demand for office space, this year the county will likely continue to witness lower than average leasing volumes.

1. Economy
2. Leasing Market Fundamentals

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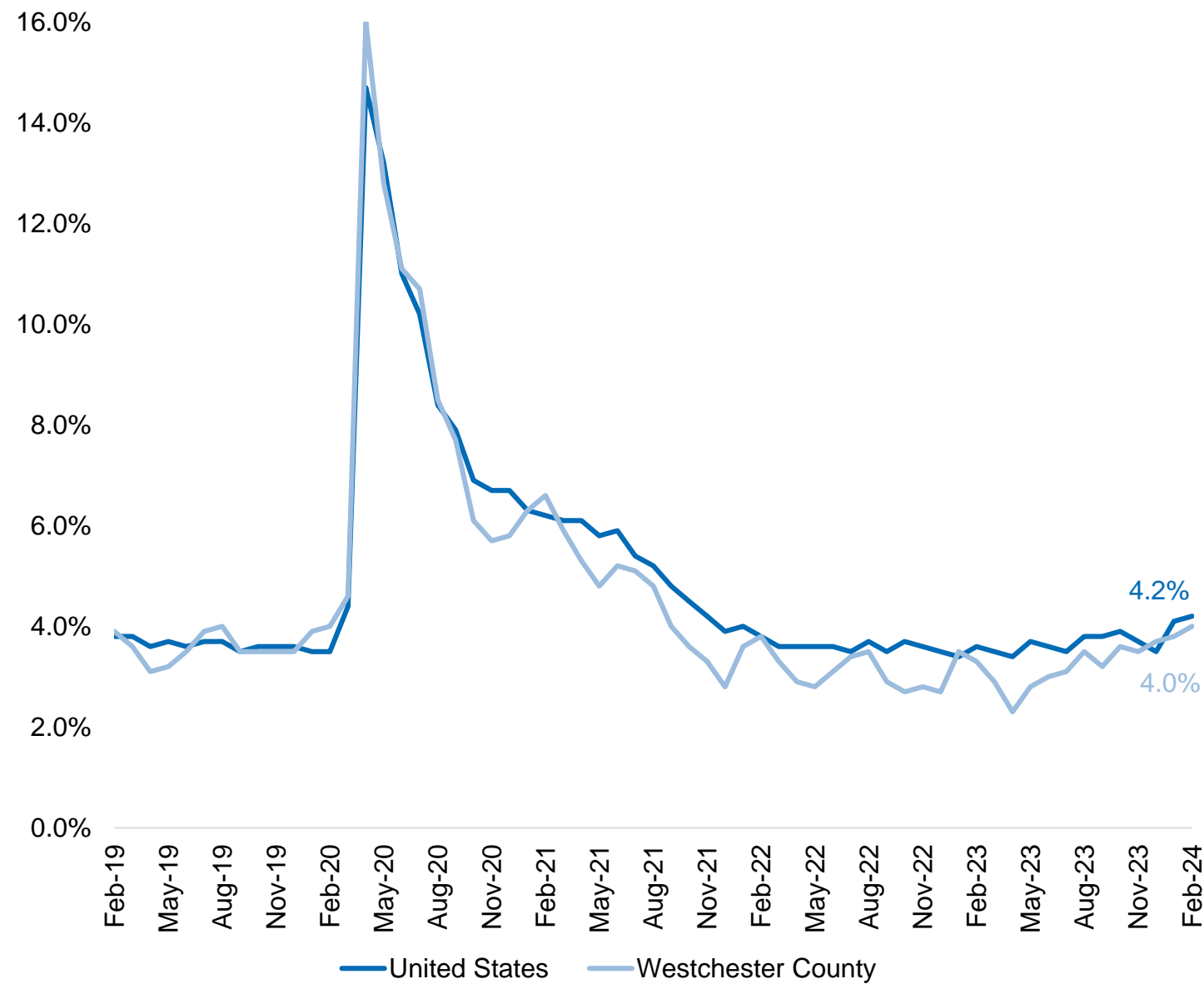
Economy



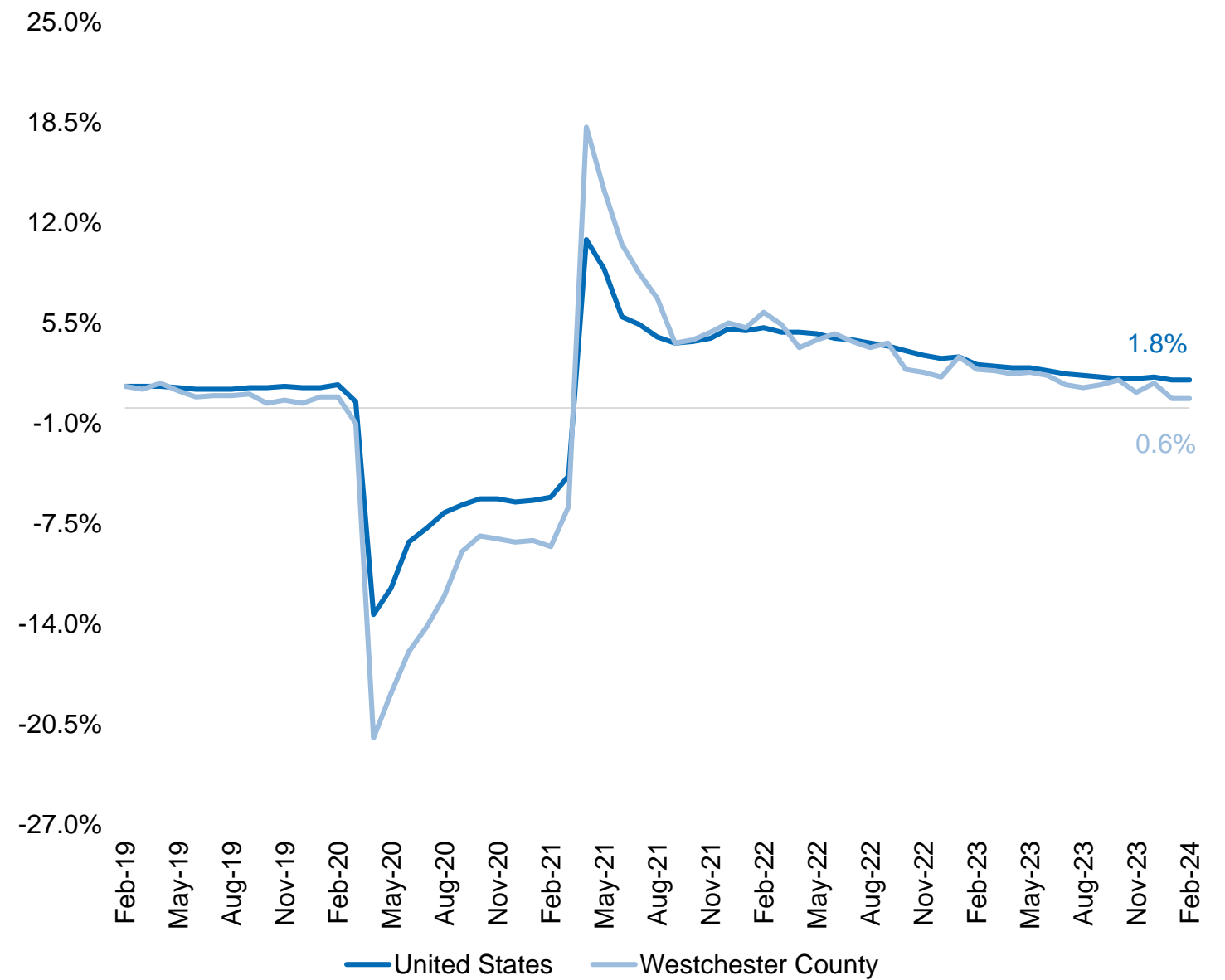
Metro Employment Trends in Westchester County

In February, the unemployment rate in Westchester County ended at 4.0%, compared to the United States' 4.2% and New York state's 4.5%. Although unemployment has increased over the past year, from 3.3% in February 2023, total nonfarm payroll employment has increased slightly year over year, by 0.6%.

Unemployment Rate, Non-Seasonally Adjusted



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

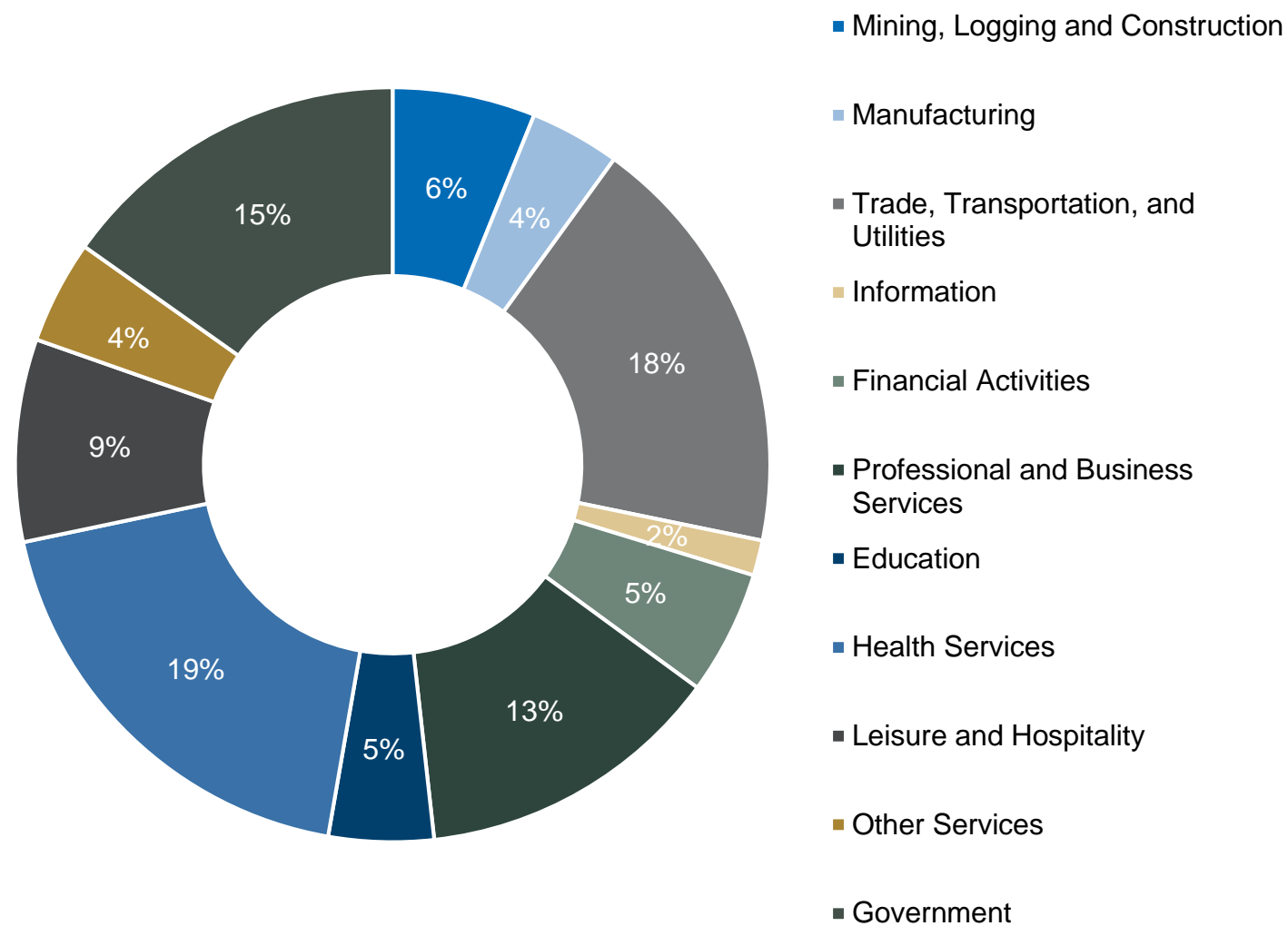


Source: U.S. Bureau of Labor Statistics, Westchester County Area (Not Seasonally Adjusted)

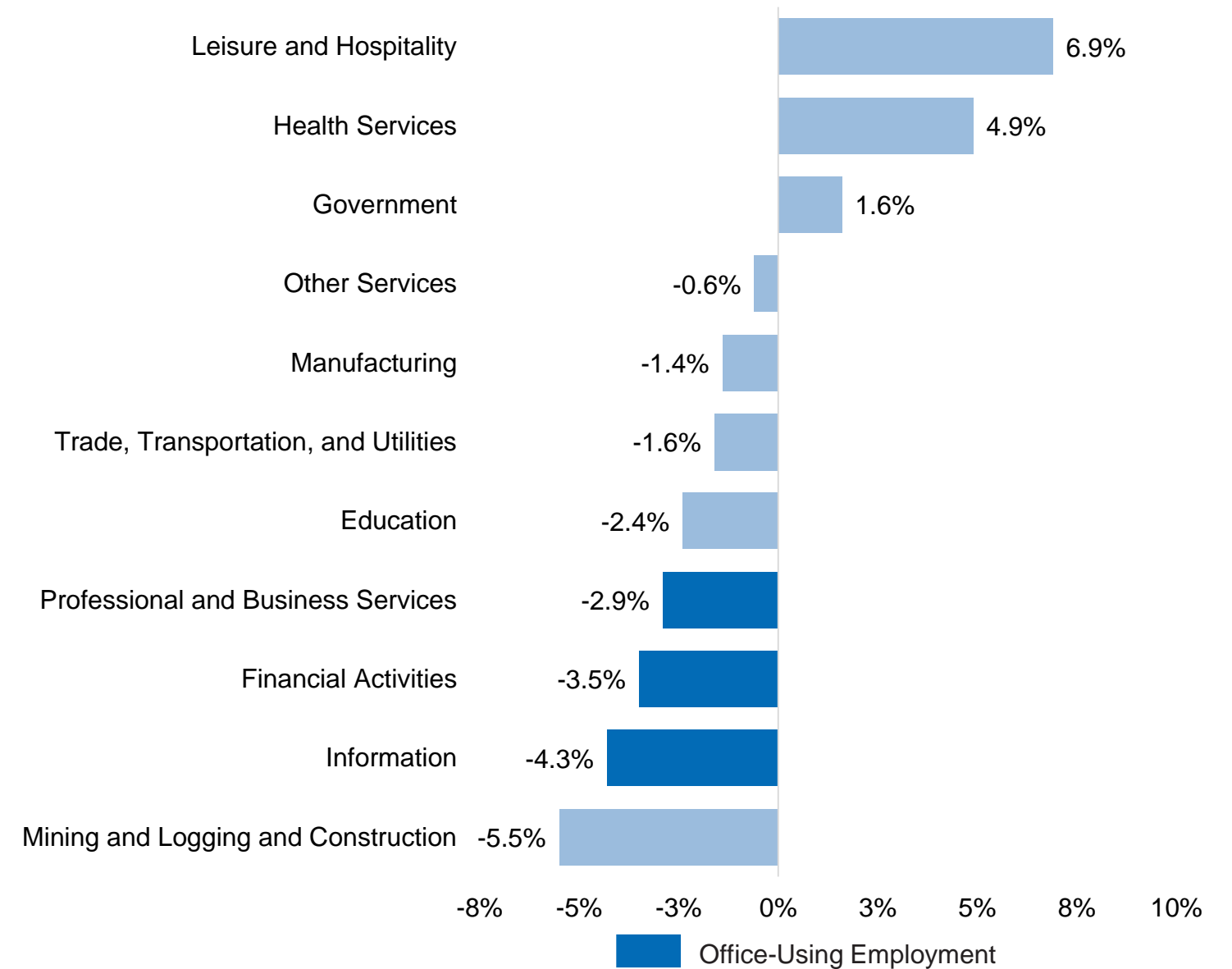
Employment Growth and Employment by Industry

Three of the 11 major industry sectors in the county grew year over year this February, including leisure and hospitality (+6.9%), health services (+4.9%), and government (+1.6%). All other industries recorded losses, with construction down 5.5% year over year, followed by information (-4.3%), financial activities (-3.5%), and professional and business services (-2.9%).

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

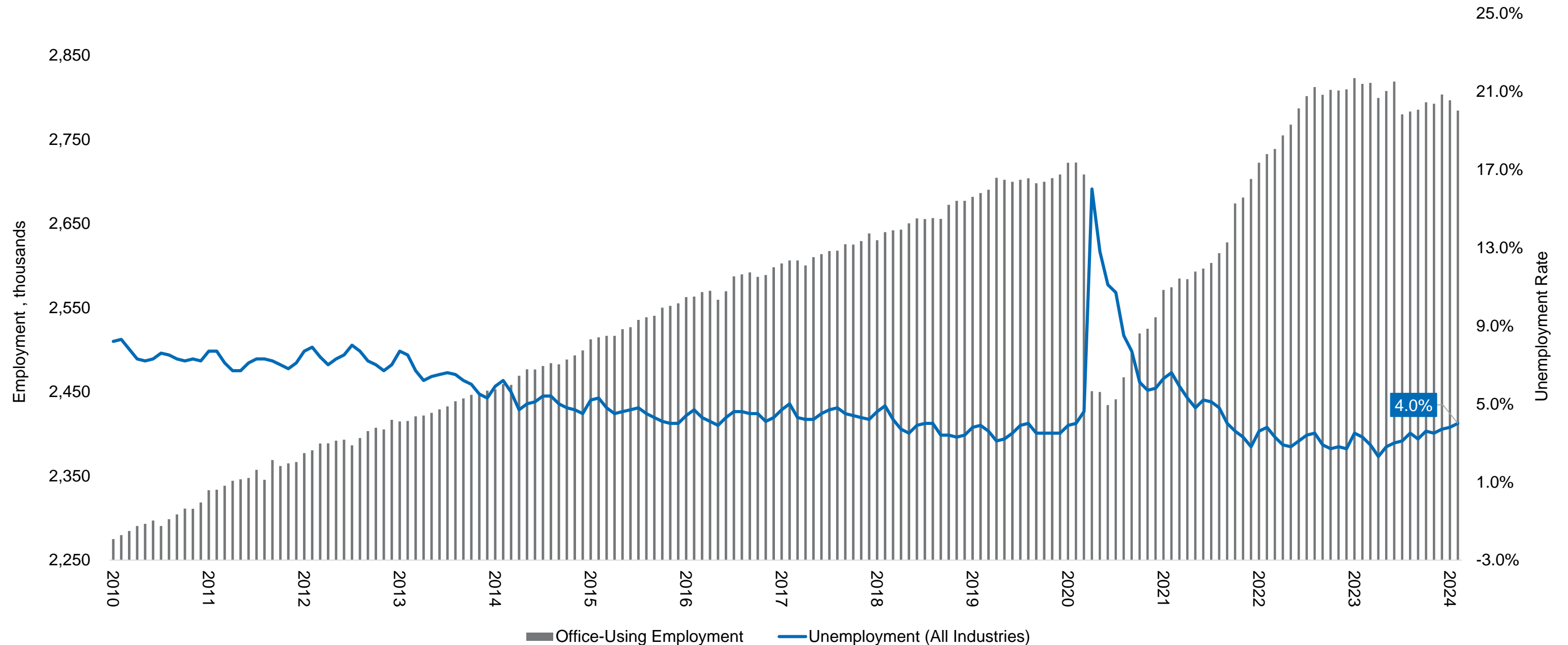


Source: U.S. Bureau of Labor Statistics, Westchester County Area (Not Seasonally Adjusted)

Office-Using Employment Trends in Westchester County

Office-using employment continues to trend higher than pre-covid levels in Westchester County but ended 1.1% lower year over year compared to last February. Job growth has been strongest in non-office using industries such as healthcare, education, and leisure, whereas office-using employment such as professional services, financial activities, and information have recorded losses. The workforce in the county is comprised of 23.5% of healthcare and education roles where in-person attendance is typically required. These roles are not included in the office-using employment data.

Office-Using Employment* and Unemployment Across All Industries



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

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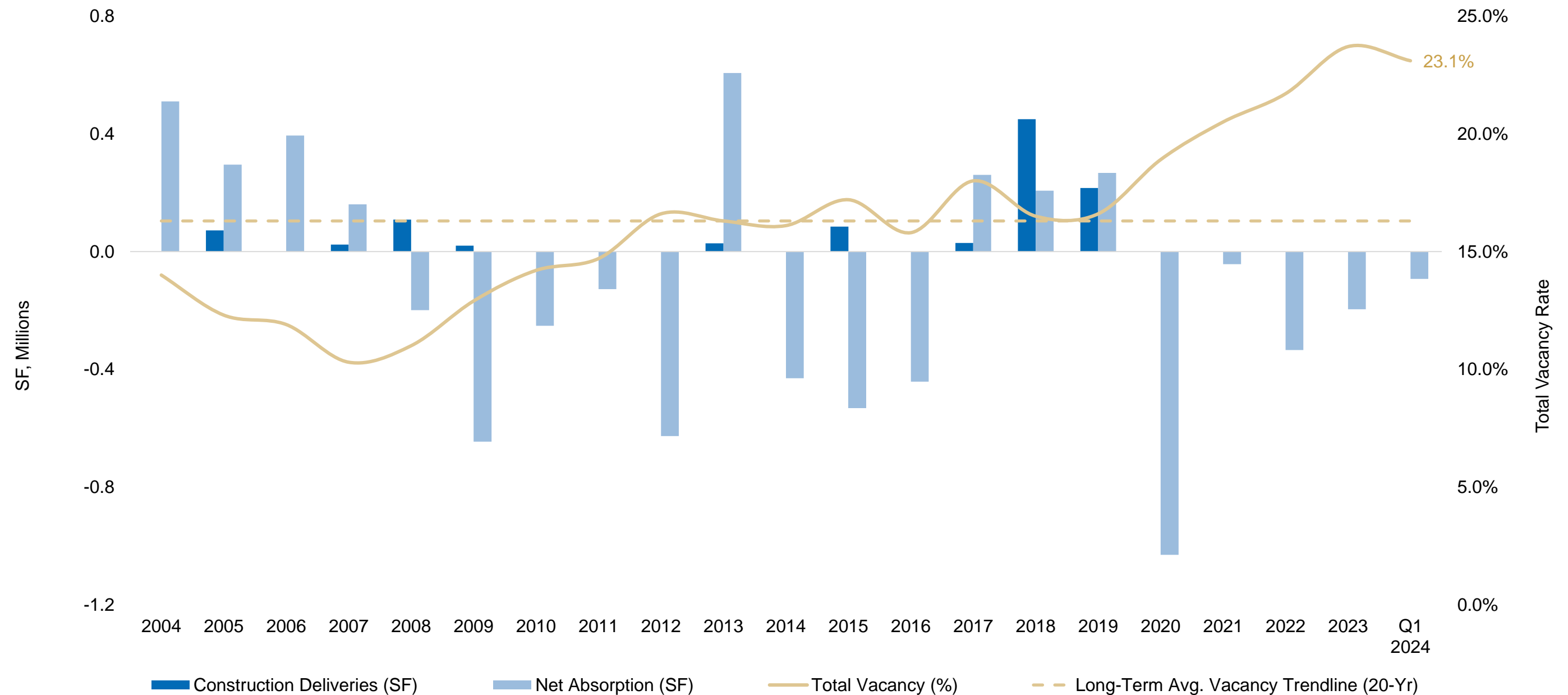
Leasing Market Fundamentals



Vacancy Rates Decrease in the First Quarter of 2024

The county's total vacancy rate, which ended at 23.1%, decreased by 0.6 percentage points from the average rate posted in 2023. This was mainly due to the removal of underutilized space at buildings that are slated for redevelopment, including 113 King Street in Armonk and 2700 Westchester Avenue in Purchase. However, with large blocks coming online this quarter, including New York Life's 90,000-SF sublease offering at Westchester One, net absorption remained negative, retracting by 92,656 SF.

Historical Construction Deliveries, Net Absorption, and Vacancy

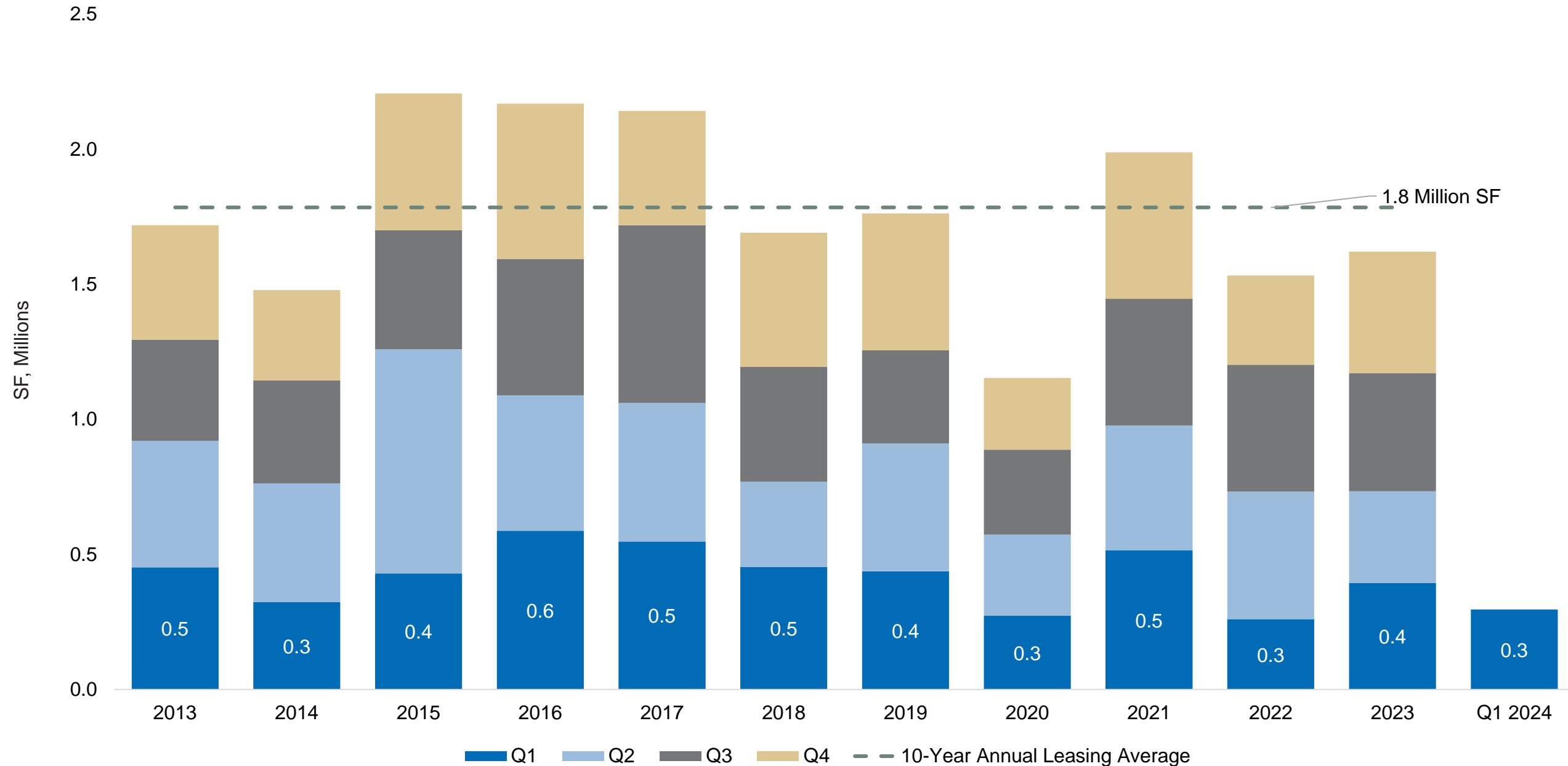


Source: Newmark Research

Leasing Activity Got off to a Slow Start

Leasing activity ended the first quarter of 2024 with 300,000 SF, a decrease of 25.0% over the past year and 30.0% below the 10-year historical average of 425,000 SF. The number of deals grew by 57, from 253 completed in 2022 to 310 this year. Small size deals are still driving demand, while mid-size deals are fewer in number and deals above 50,000 SF are nearly non-existent.

Total Leasing Activity (msf)

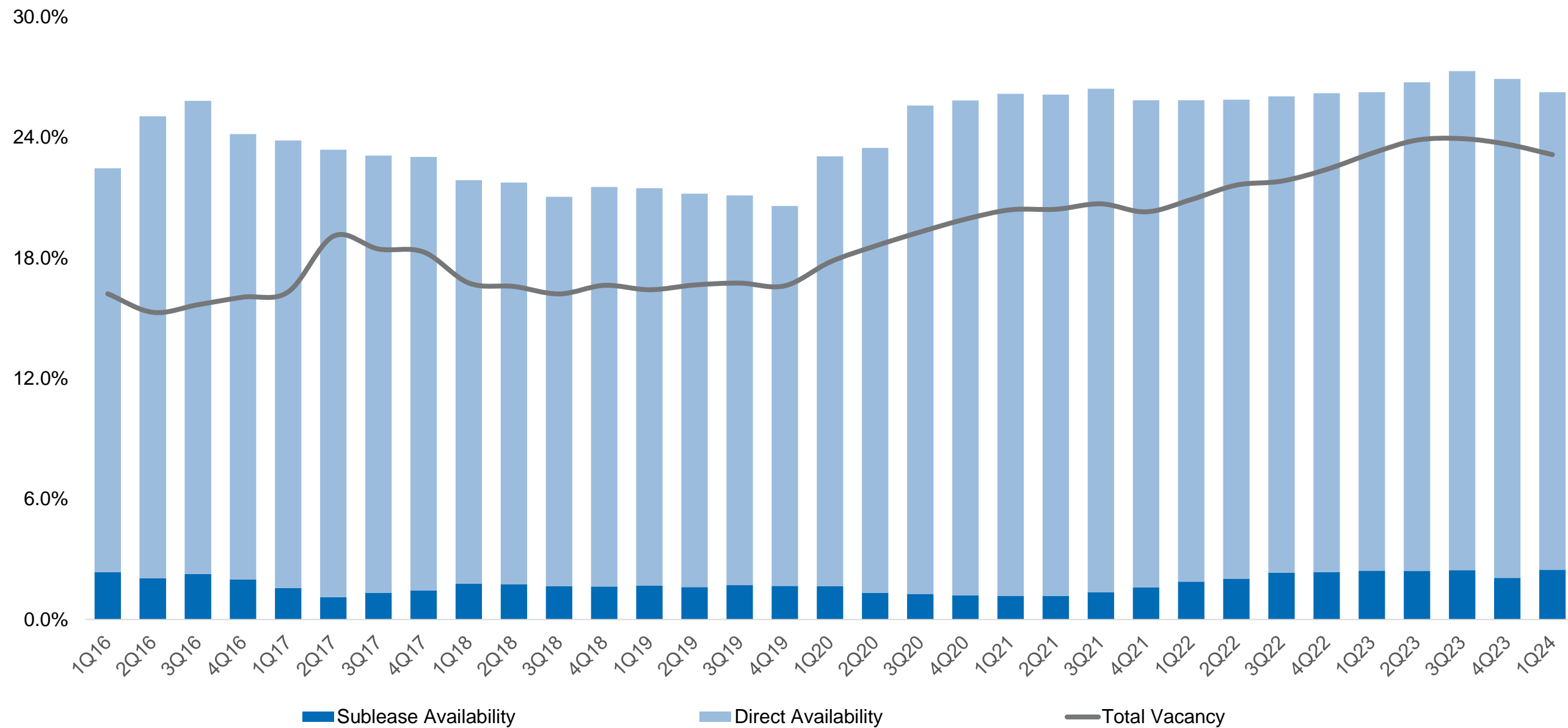


Source: Newmark Research

Vacancy Rate Remains Skewed by Large Obsolete Block in the North

Total availability rate ended at 26.3%, improved from the 26.9% rate recorded in the previous quarter. The total vacancy rate ended at 23.1%, also lower than the 23.7% level from the previous quarter and slightly down from 23.2% at this time last year. 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 18.4%.

Available Space as Percent of Overall Market

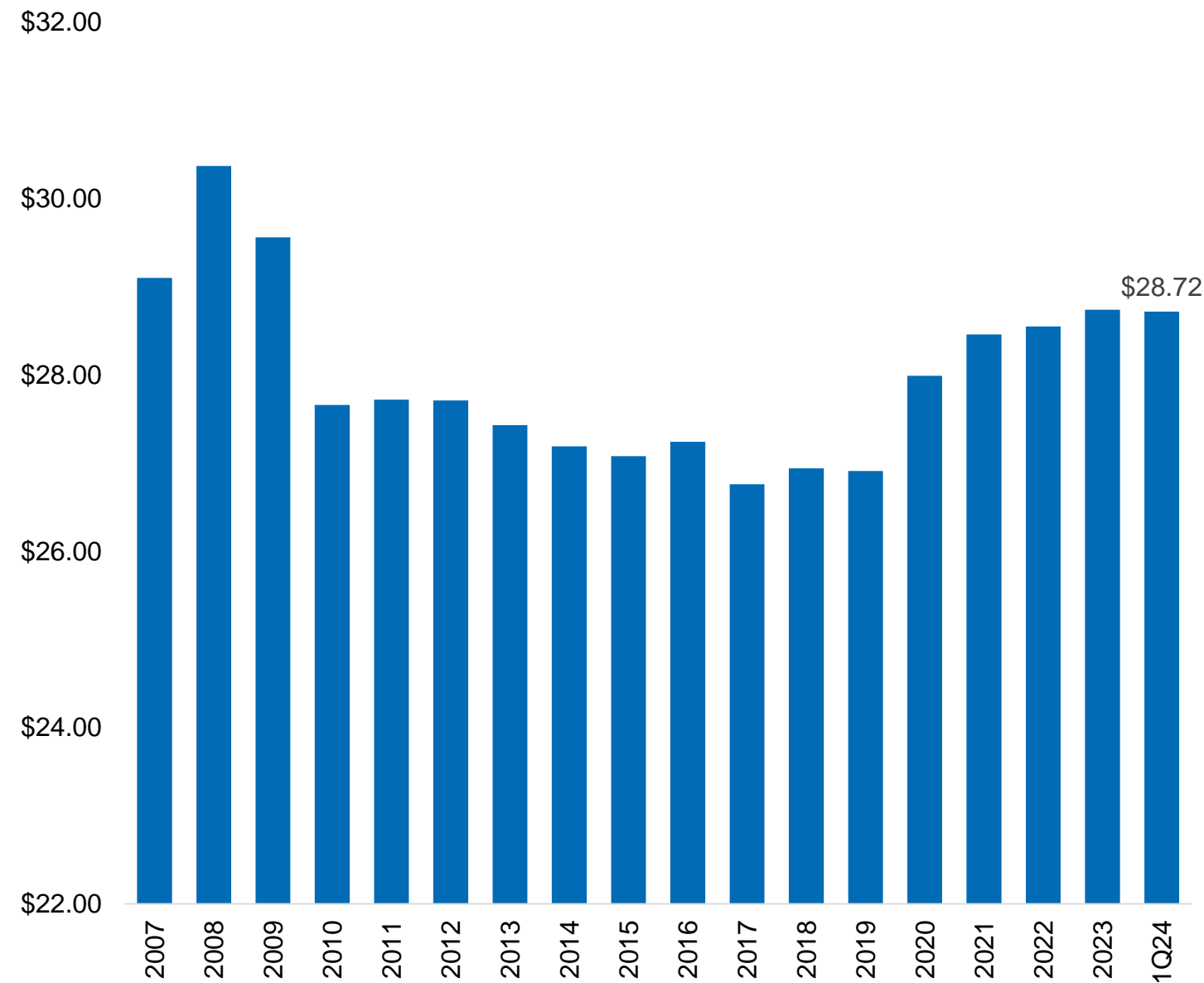


Source: Newmark Research

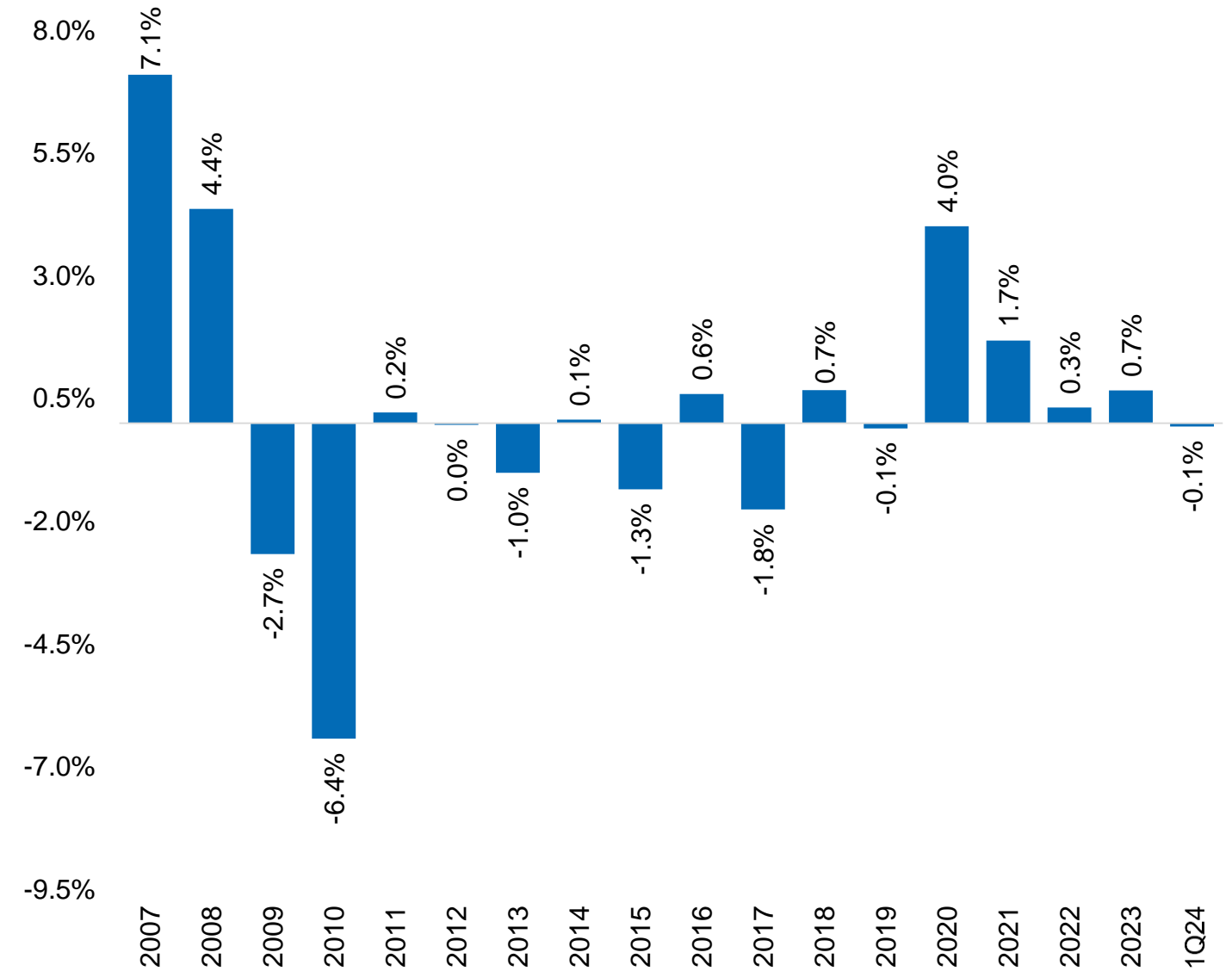
Rent Growth Softened Considerably Since 2020

The county's direct average asking rent showed a marginal 0.2% decrease from \$28.80/SF in the first quarter of 2023 to the current \$28.72/SF. Average asking rents had trended upwards since the pandemic, mostly due to an increase in construction costs. However, the growth rate softened considerably in the past year.

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



Year-over-Year Asking Rent Growth Rate

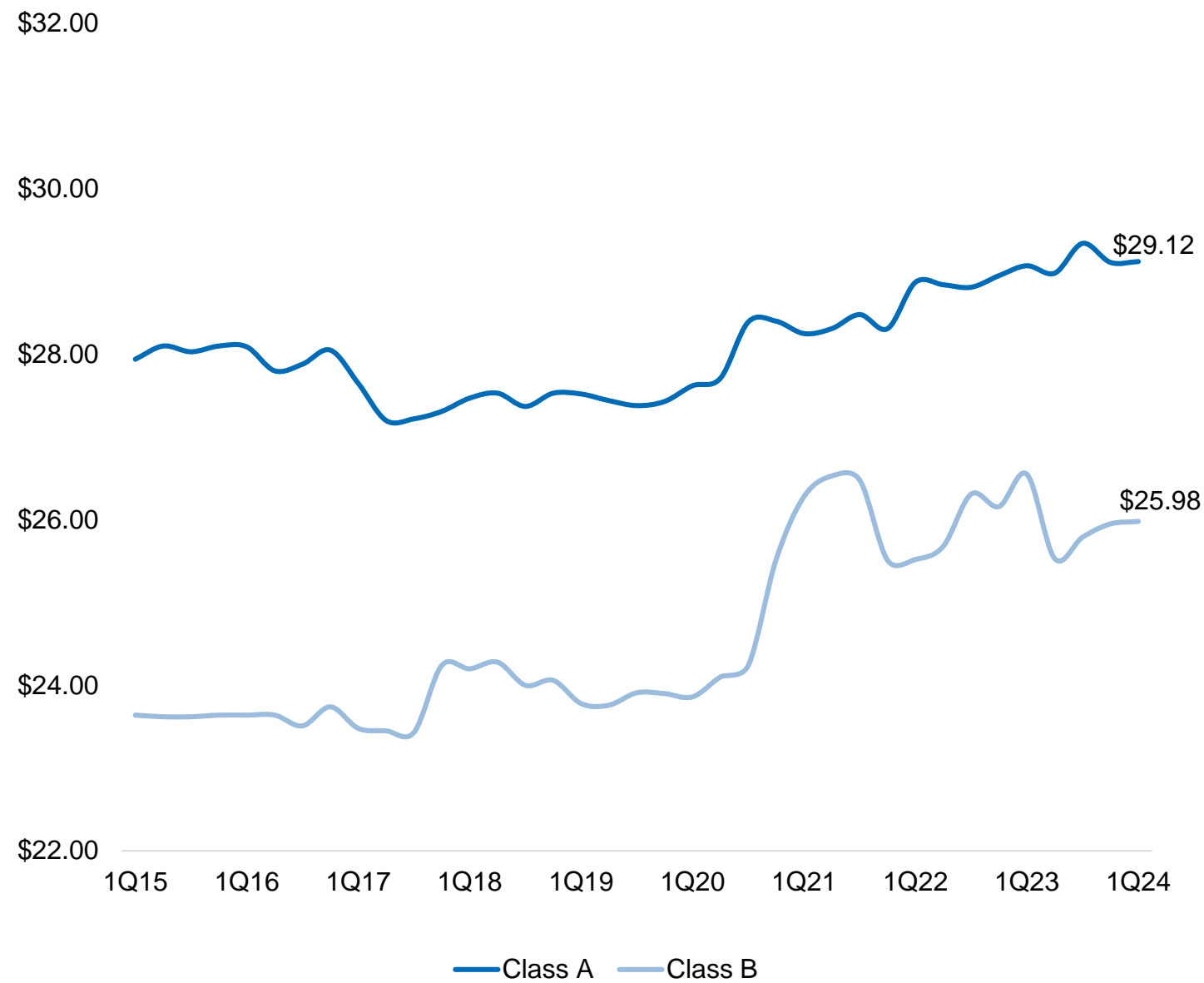


Source: Newmark Research

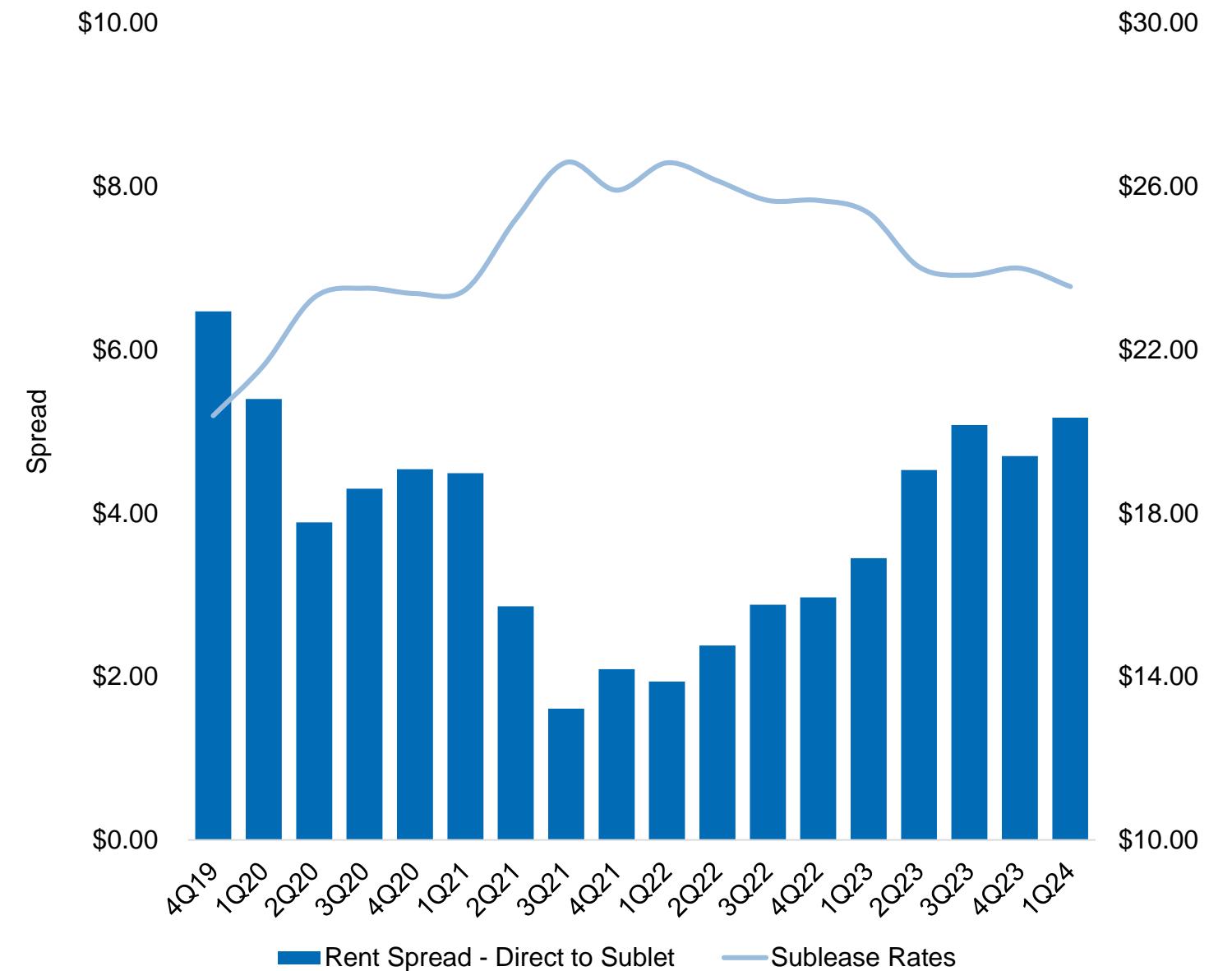
Rent Spread Between Direct and Sublease Space Fell from Previous Quarter Peak

The rent spread between direct and sublease space increased this quarter to \$5.17/SF, from \$4.70/SF in the previous quarter, marking a new rental spread high. This was due to higher-priced space added to the market this quarter at Westchester One, where a 90,000-SF block from New York Life came online on a sublease basis. The direct average asking rent for Class B product has shown slight gradual increases for the fifth quarter in a row, while Class A rents remained stable this quarter.

Class A and Class B Asking Rents



Sublease Asking Rates



Source: Newmark Research

Leasing Activity Remained Primarily Lease-Expiration Driven

Deals ranging from 5,000 SF to 10,000 SF drove demand this quarter, with 31 of those signed for a total of 215,000 SF, up 40.0% from the prior year. In total, 66 out of the 71 deals registered this quarter were for less than 10,000 SF. Leasing activity remains primarily lease-expiration driven and several of the larger renewals and or relocations involve shedding of excess space.

Notable Q1 2024 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
PKF O'Connor Davies	500 Mamaroneck Avenue	Harrison – East I-287	Renewal	35,580
Citrin Cooperman	1133 Westchester Avenue	White Plains – East I-287	New Lease	22,018
Welby, Brady & Greenblatt	50 Main Street	White Plains – CBD	New Lease	11,970
Northwell Health	440 Mamaroneck Avenue	Harrison – East I-287	New Lease	11,224
Arrow Electronics	2900 Westchester Avenue	Purchase – East I-287	Renewal	11,120
SightMD	1 Executive Boulevard	Yonkers – Southern	New Lease	9,428

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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