

3Q24

NEWMARK

Westchester County Office Market Overview



Market Observations

Economy

- Office-using employment continued to trend higher than pre-COVID levels in Westchester County metro area, but decreased by 1.2%, or 34,295 positions year-over-year.
- Five of the ten major industry sectors recorded job increases in August: education and healthcare, leisure and hospitality, other services, government, and trade, transportation, and utilities. Overall, nonfarm payroll was up by 1.3% year-over-year.
- Year-over-year job losses were recorded in all three office-using industries. Professional and business services decreased by 0.5%, financial activities decreased by 0.9%, and information decreased by 4.8%.
- The Westchester County unemployment rate ended at 4.1% in August 2024, lower than New York state's level of 4.9% and United States rate of 4.4%.

Major Transactions

- One of the largest deals completed in 2024 was a 62,019-SF lease by New York State OGS Attorney General at 44 South Broadway in Downtown White Plains. A tenant since 2013, NYS OGS signed a renewal and expanded its original footprint by over 50%.
- The healthcare and educational sectors continue to drive demand in the Westchester County market, comprising 24% of all employment. However, most of the leasing completed within these industries are not reflected in office-using statistics.
- Notable recent deals completed by educational and medical tenants this year include Monroe College's 57,000-SF lease at 33 LeCount Place in New Rochelle; White Plains Hospital's 38,000-SF renewal at 222 Westchester Avenue in White Plains and New York School of Medicine's 32,000-SF new lease at 4 Westchester Park Drive in White Plains.
- In the past year, 5 sales were completed for roughly \$46 million, compared with an annual average of 15 sales. The purchase of 3 Campus Drive, a 31,000-SF flex building located in Pleasantville's northern market, for \$2.75 million, or \$89/SF, and 540 White Plains Road, a 143,000 SF office building located in Tarrytown's western market, for \$2.11 million, or \$15/SF, have been the only sales recorded in 2024 thus far.

Leasing Market Fundamentals

- The total availability rate, which ended at 27.3%, remained unchanged from the year prior. The total vacancy rate hit a new record high of 25.3% for the second quarter in a row, with more of these availabilities becoming vacant as leases expire. 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 21.0%.
- After getting off to a slow start, leasing activity finished the third quarter with 346,000 SF of leases tracked. This resulted in a combined 1,028,000 SF of leasing year to date, 12.1% lower than levels registered during the third quarter of 2023 and remaining 21.2% below the historical third quarter average.
- In recent years smaller deals have kept leasing volumes well below average. This quarter deals ranging from 10,000 SF to 25,000 SF decreased by 19.3% from the third quarter of 2023.
- The county's direct average asking rent ended at \$28.63/SF this quarter, down from \$28.72/SF last quarter and \$28.72/SF in the third quarter of 2023.

Outlook

- The commercial real estate market still faces some headwinds, particularly in the investment sales side for assets with loan maturities on the horizon. Capital markets activity will likely increase as owners look to refinance or dispose of assets that no longer meet their investment criteria. This may also lead to more conversions of office properties that are deemed in-leasable in today's market.
- Looking forward, economic conditions may point to a more supportive environment as Fed officials cut rates by 50 basis points for the first time in four years, citing confidence that inflation is moving down toward their 2% goal.
- Recently observed trends, both nationally and locally, are likely to continue throughout the second half of the year. These include continued flight-to-quality into smaller footprints but also large tenants' tendency toward renewals with longer lease terms versus relocations.

1. Economy
2. Leasing Market Fundamentals

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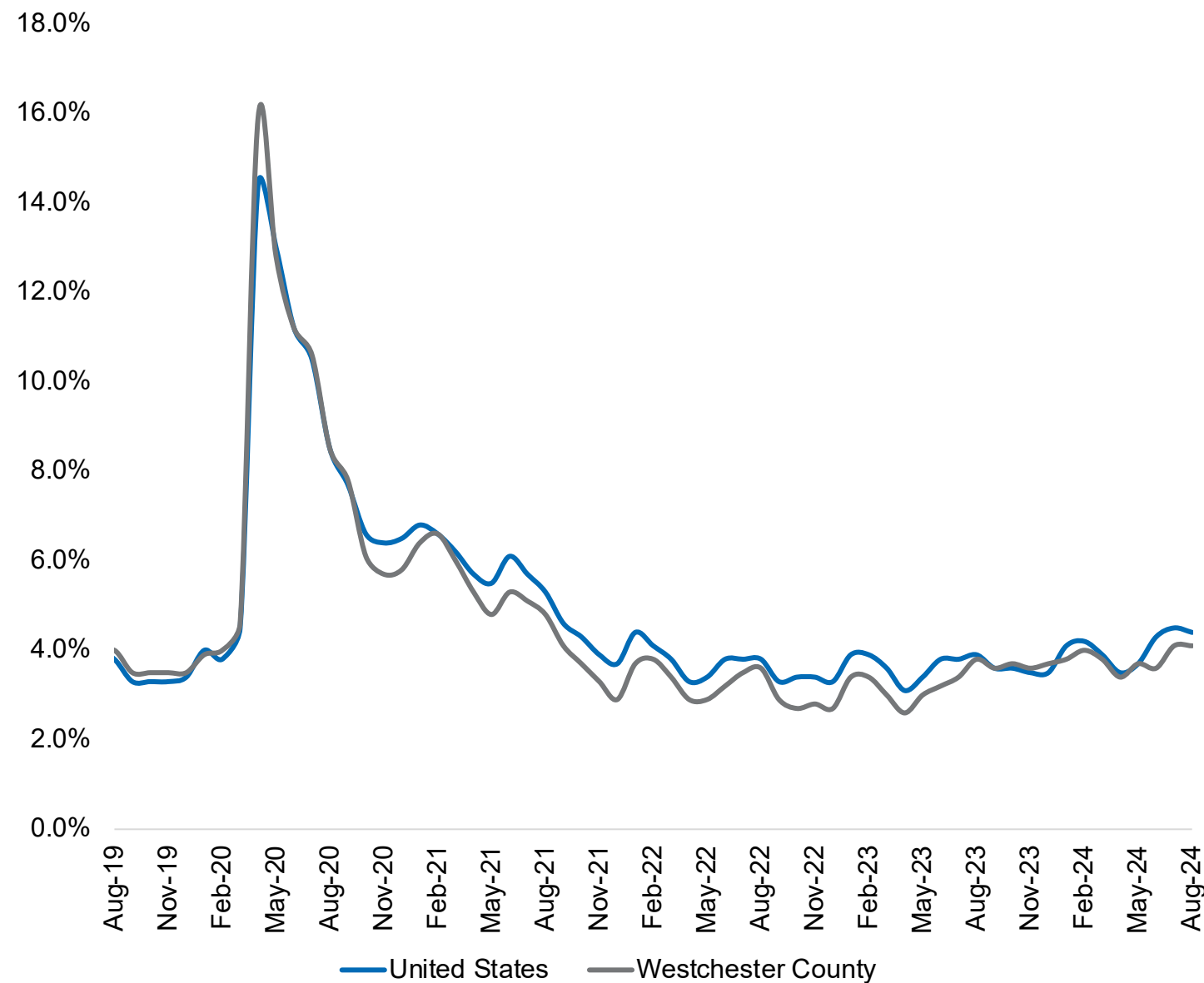
Economy



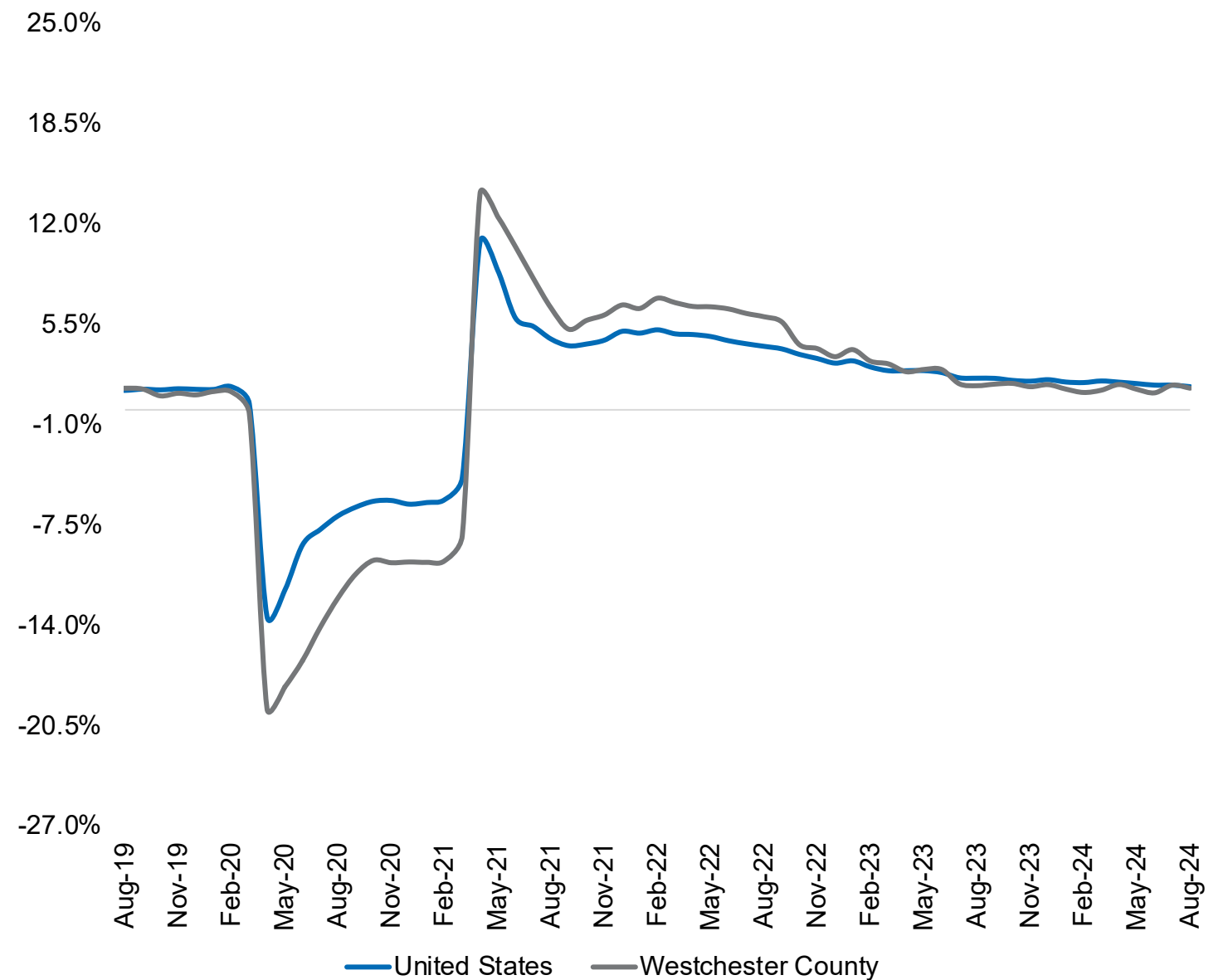
Metro Employment Trends in Westchester County

The unemployment rate in Westchester County ended at 4.1% in August 2024, while New York state's level trended higher at 4.9% and the national rate ended at 4.4%. Nonfarm payroll employment remained steady in the third quarter, ending at a 1.4% year-over-year change in August, only 0.1 percentage point lower than the national year-over-year increase of 1.5%.

Unemployment Rate, Non-Seasonally Adjusted



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

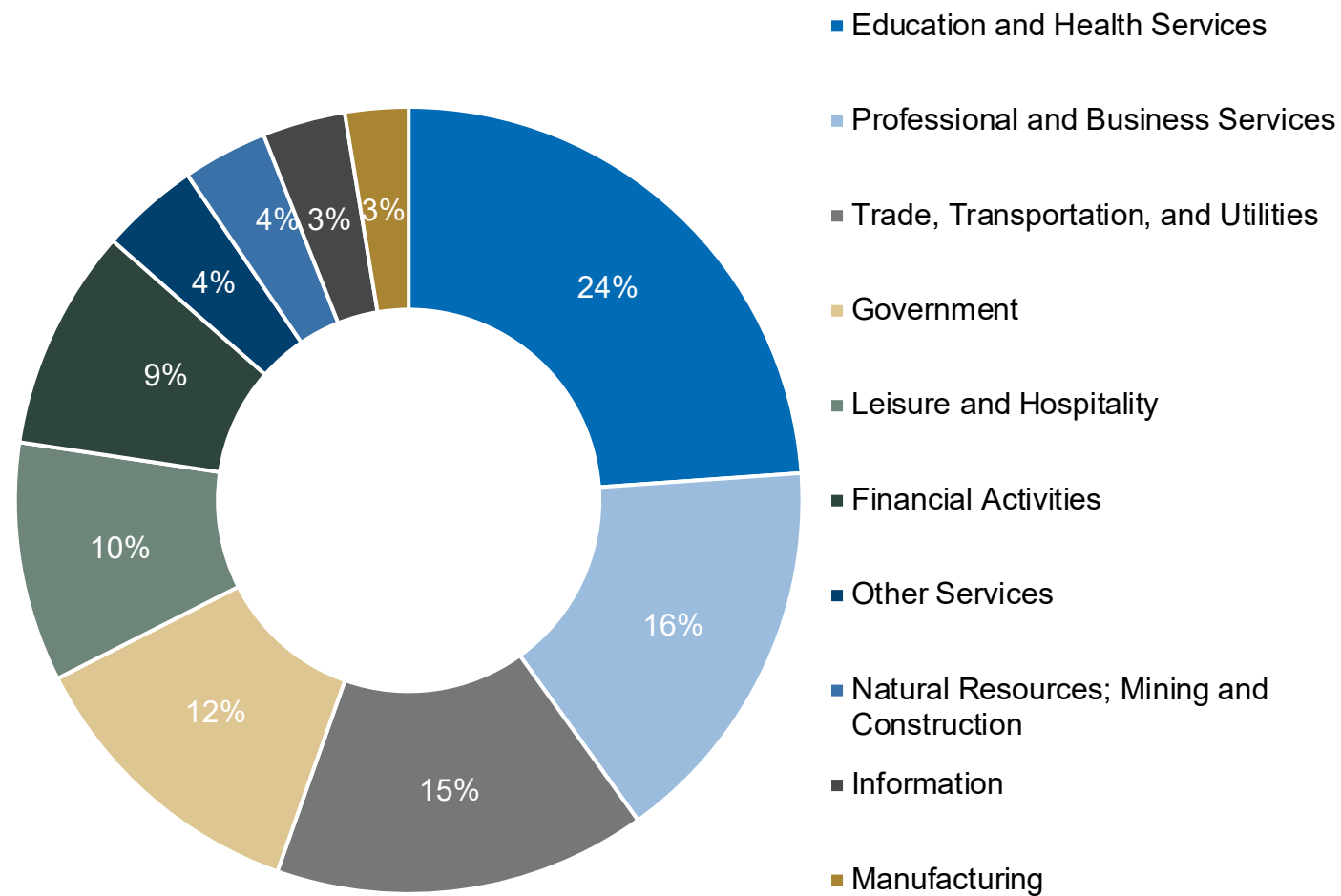


Source: U.S. Bureau of Labor Statistics, Westchester County Area

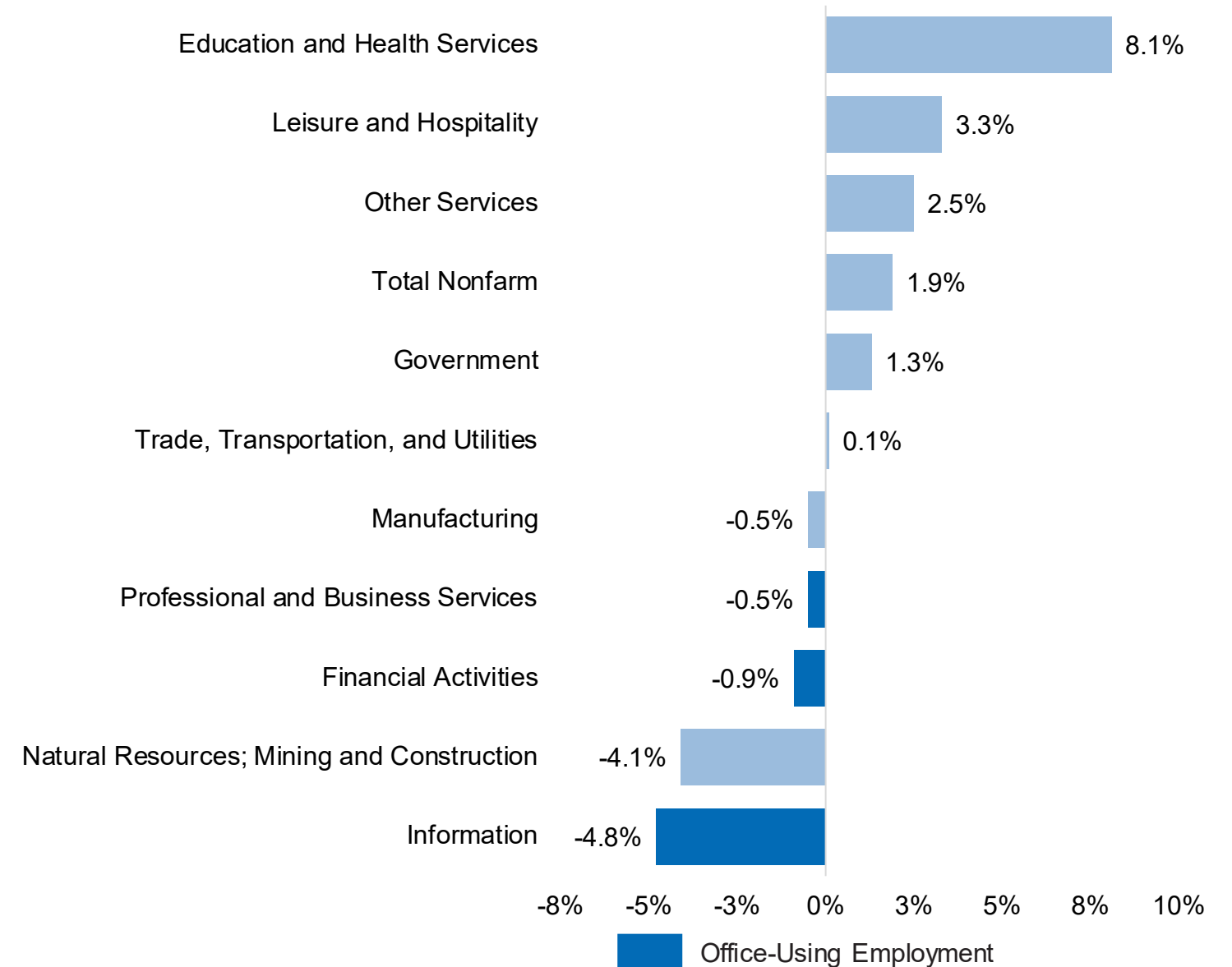
Employment Growth and Employment by Industry

Employment growth year-over-year in Westchester County was led by education and healthcare (+8.1%), leisure and hospitality (+3.3%), other services (+2.5%), government (+1.3%), and trade, transportation, and utilities (+0.1%). All three office-using employment industries declined year-over-year this August, with professional and business services down by 0.5%, financial activities down by 0.9%, and information down by 4.8%. Employment continues to be heavily concentrated in the medical and education sectors in the County, taking up 24% of all employment and continues to be the strongest growing industry in the area.

Employment by Industry, August 2024



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

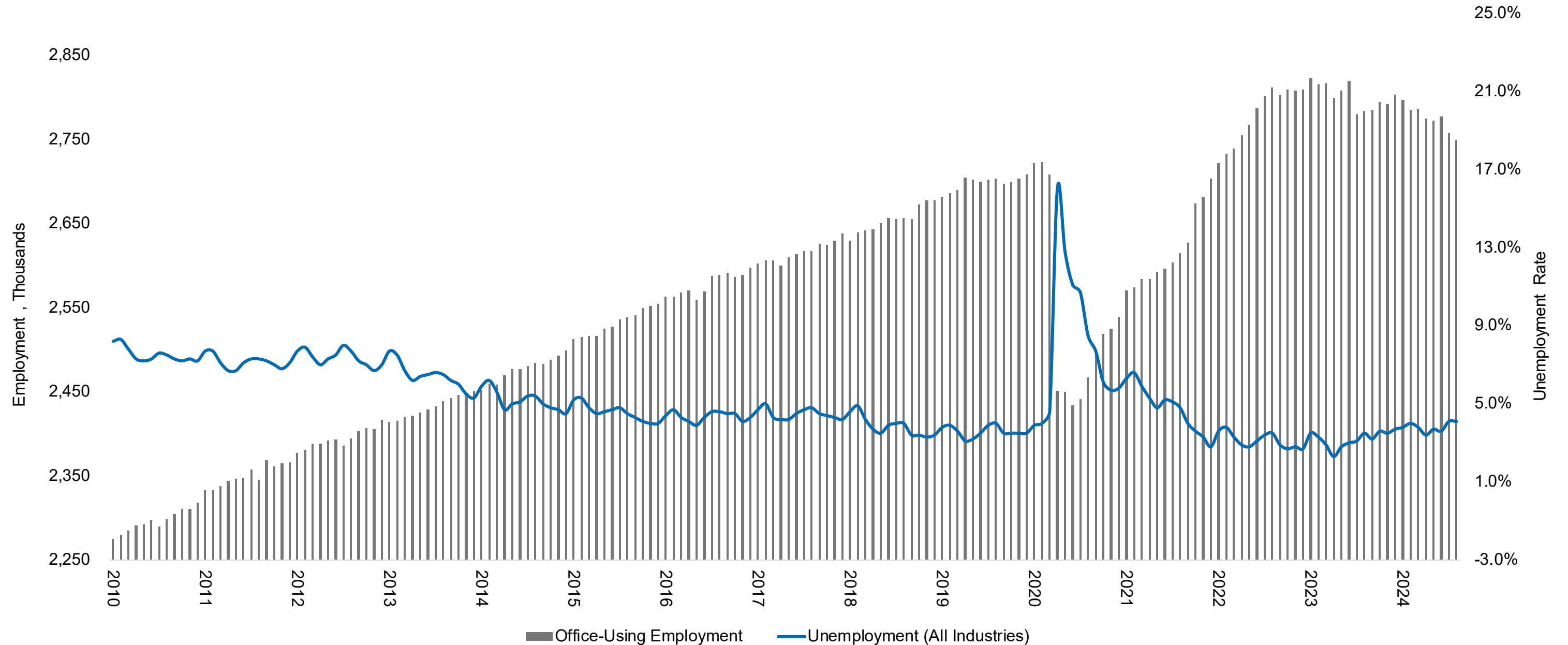


Source: U.S. Bureau of Labor Statistics, Westchester County Area (Not Seasonally Adjusted)

Overall Office-Using Employment Trends

Office-using employment in NY-NJ-PA Metro Area, which includes Westchester County, decreased by 1.2% year-over-year, and was down month over month by 0.3%. Office-using industries which include financial services, information and professional services, all decreased in employment growth this August. However, employment levels remain well above pre-COVID levels.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, NY-NJ-PA Metro 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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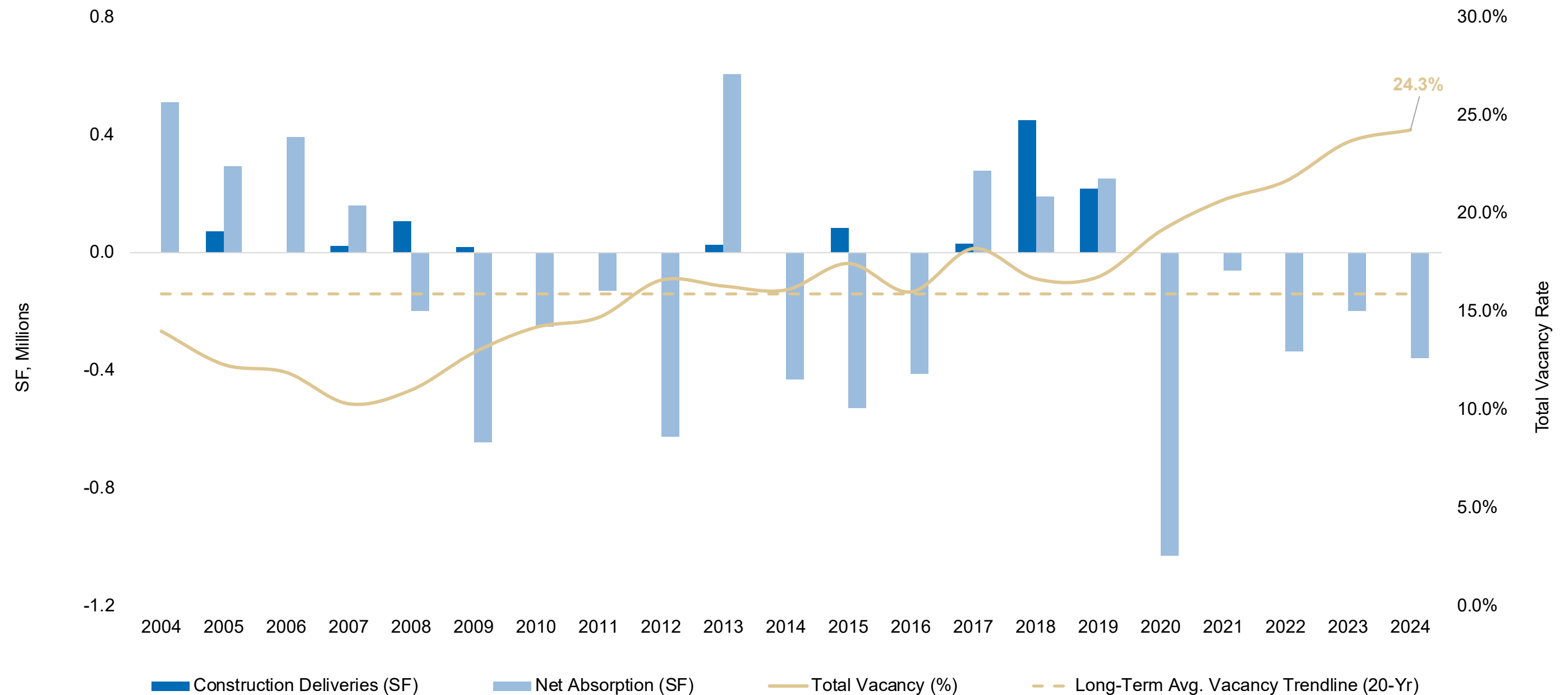
Leasing Market Fundamentals



Vacancy Rates Increase in the Third Quarter of 2024

The county's total year to date average vacancy rate ended at 24.3%, up by 1.4 percentage points from a year ago. Large blocks coming online earlier this year, including New York Life's 90,000 SF sublease offering at Westchester One caused the uptick. More recently, some units came online in the eastern market, including Zylem's 64,000 SF space at 1 International Drive, Rye Brook. Therefore, YTD net absorption remained negative, retracting by 357,451 SF.

Historical Construction Deliveries, Net Absorption, and Vacancy

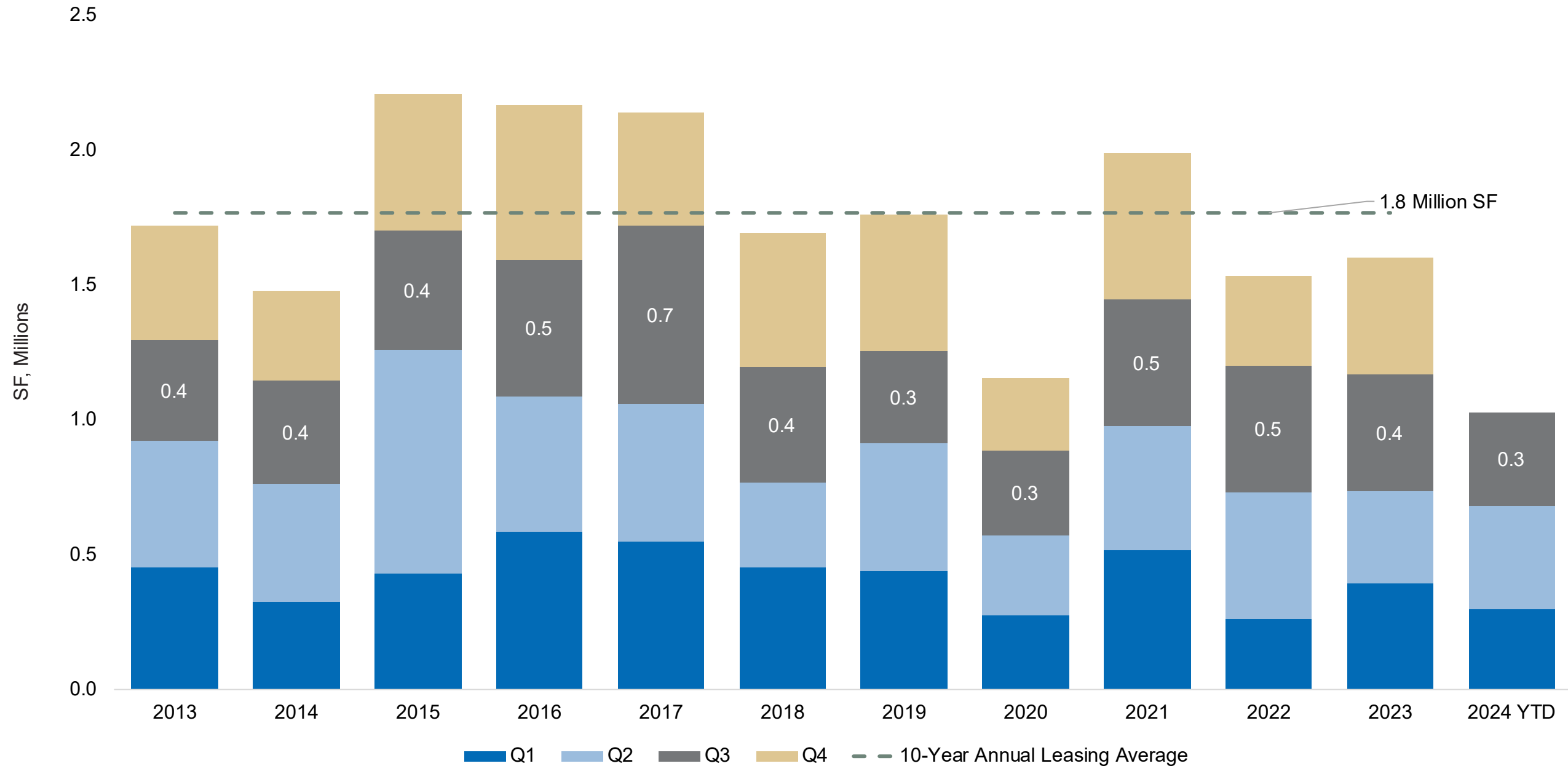


Source: Newmark Research

Year to Date Leases Tracked in 2024 Decreased Compared to 2023

After getting off to a slow start, leasing activity finished the third quarter with 346,000 SF of leases tracked, which resulted in a total of 1.0 million SF year to date. This was lower than year to date levels registered during the third quarter of 2023 by 12.1%. Further, these totals remain 21.2% below the historical third quarter year to date leasing average. Smaller deals under 10,000 SF made up the majority of leasing this quarter, making up nearly 90% of all deals.

Total Leasing Activity (msf)

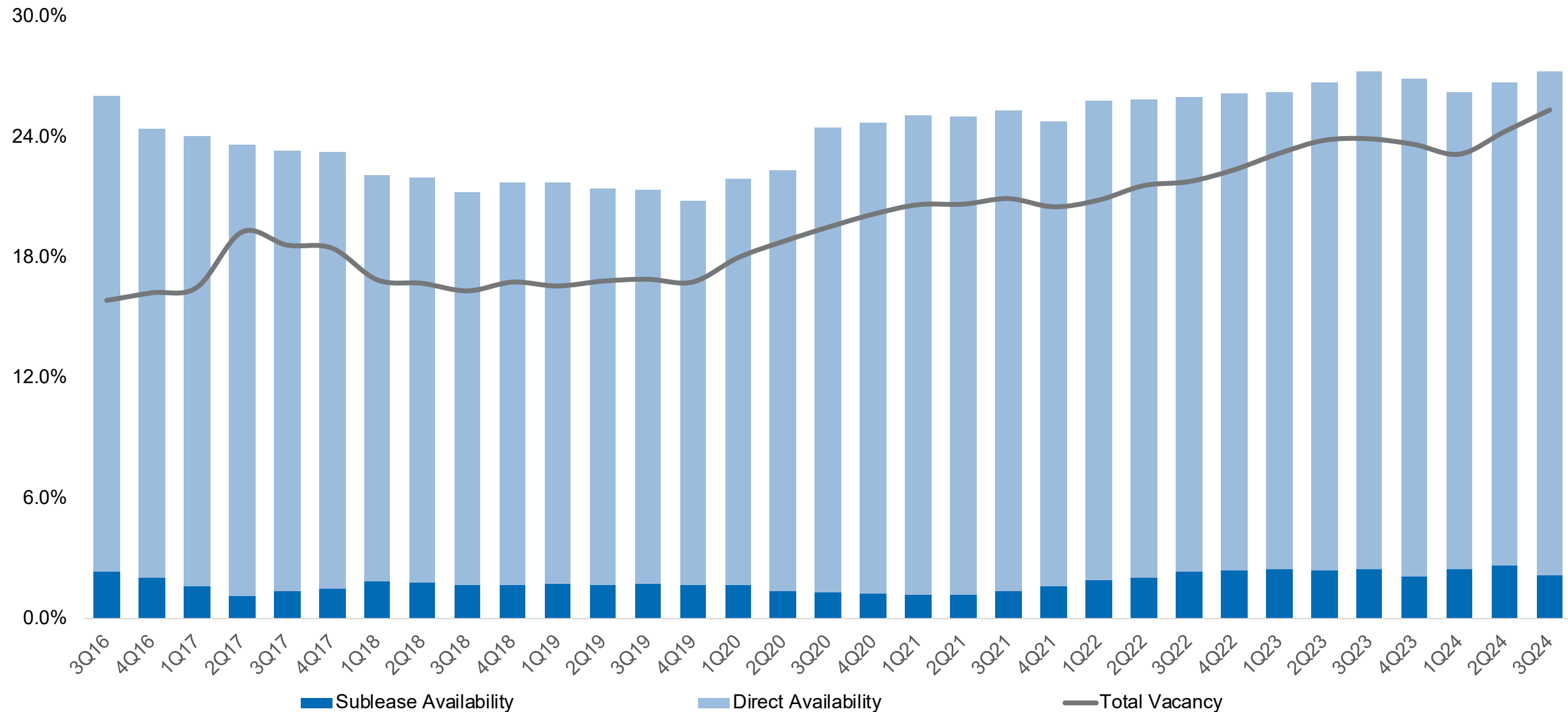


Source: Newmark Research

Vacancy Rate Moves Back up in Q3, But Remains Skewed by Large Obsolete Block in North

As excess space from tenants rightsizing comes online, both the overall availability and vacancy rates moved back up this quarter, ending at 27.3% and 25.3%, respectively. However, it is always 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 would drop to 21.0%.

Available Space as Percent of Overall Market

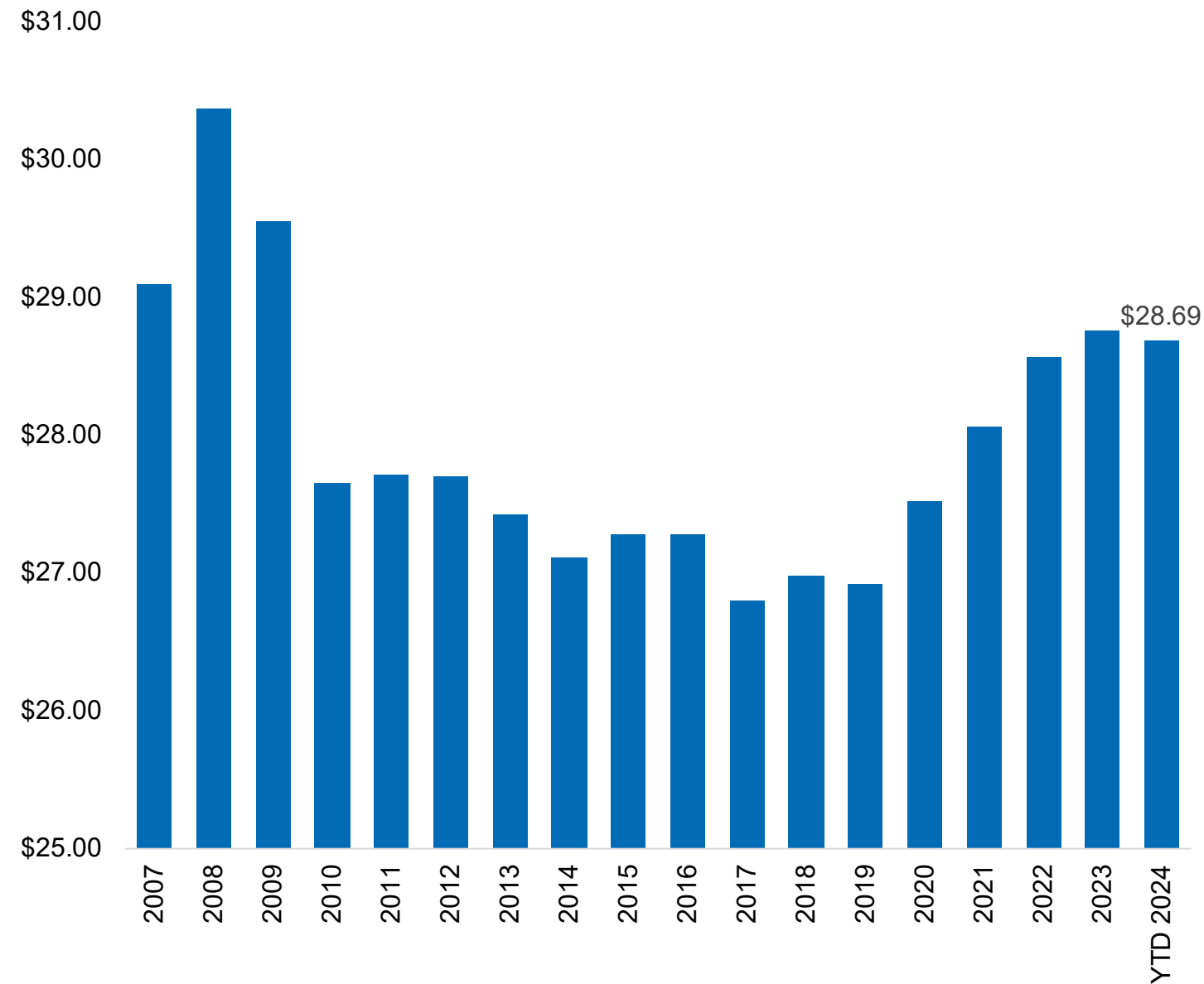


Source: Newmark Research

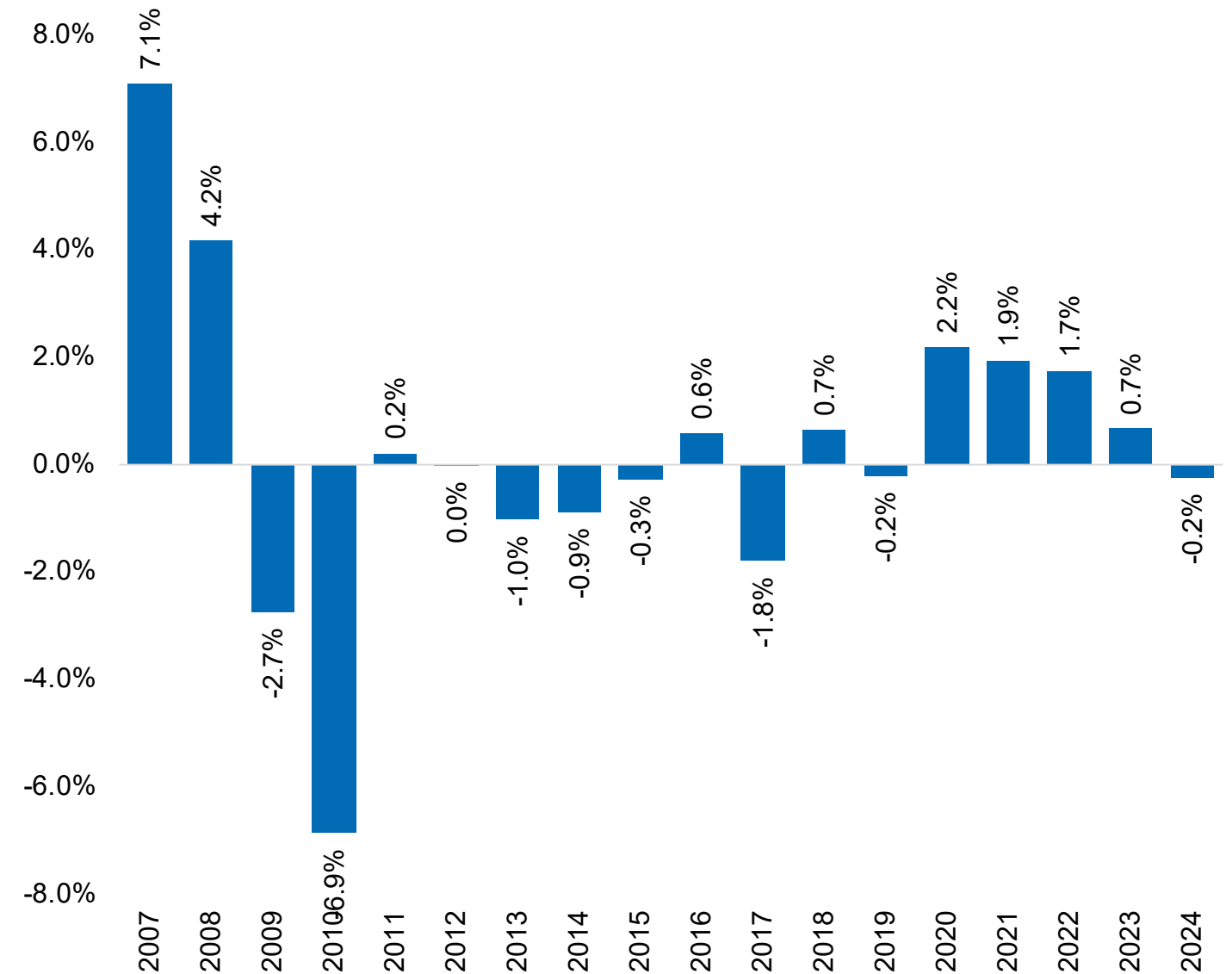
Rent Growth Back to Pre-Pandemic Levels

At \$28.69/SF, the county's year-to-date direct average asking rent remained stable from both the previous quarter but lower from the \$28.76/SF average rate recorded in 2023. Asking rents had trended upwards since the pandemic, mostly due to an increase in construction costs, but the growth rate softened considerably in the past year. Concessions may also be reaching a peak, given current economic conditions.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

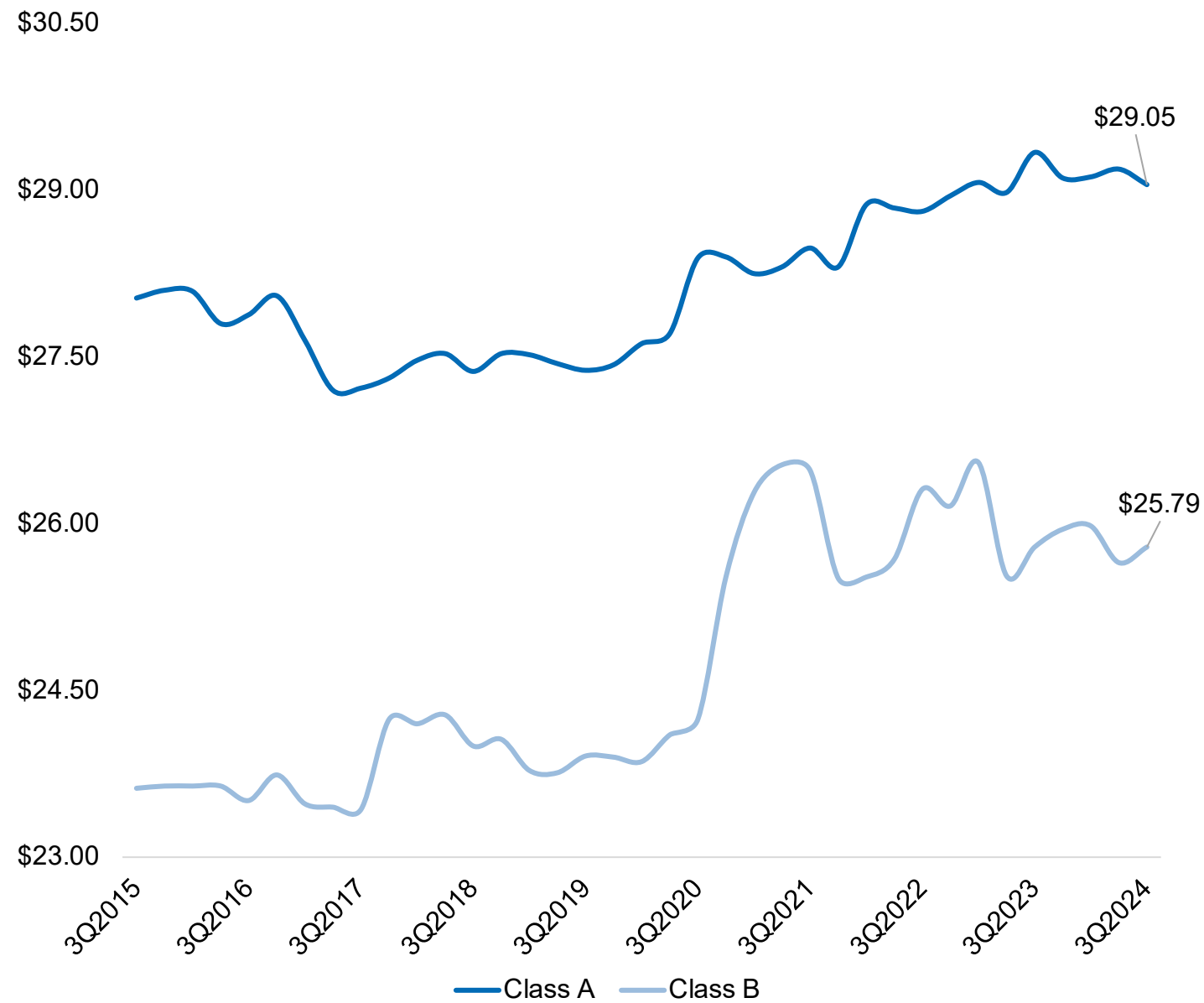


Source: Newmark Research

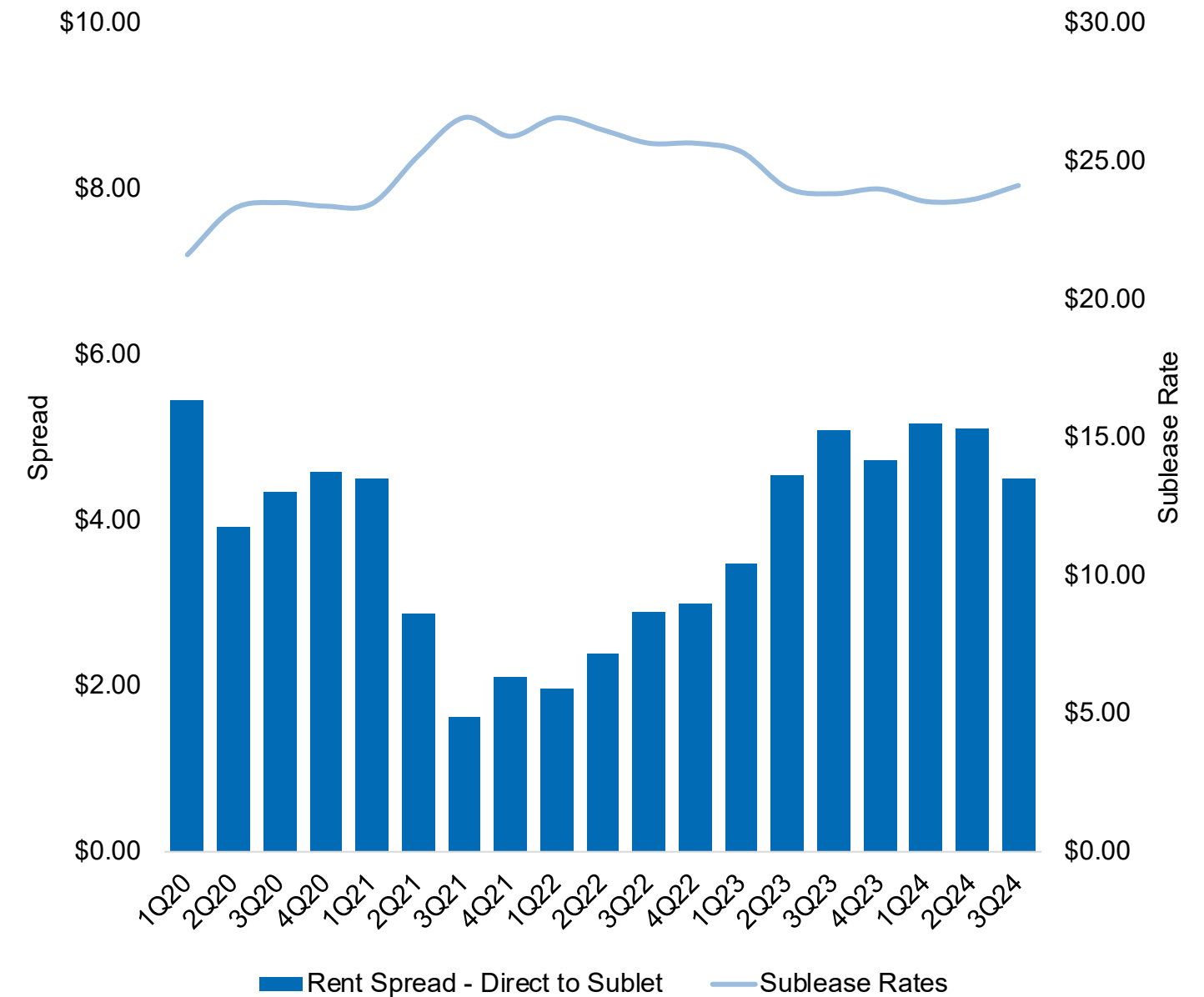
Class B Rental Rates Edge Slightly Higher, While Pricing for Class A Product Falls

The average asking rent for Class A space moved slightly lower this quarter, ending at \$29.05/SF, compared with \$29.34/SF at this time last year and \$29.19/SF last quarter. Class B rents on the other hand, increased to \$25.79/SF, from last quarter's \$25.65/SF yet remained unchanged year-over-year. Sublease rates increased slightly to \$24.13/SF, compared to \$23.83/SF in the third quarter of 2023. Furthermore, the rent spread decreased by 11.6% year-over-year, from \$5.09/SF to \$4.50/SF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Significant Year-to-Date Leasing Activity

Leasing activity for the first three quarters of the year remained below the historical average of 1.3 million SF, finishing at 1.0 million SF. Activity was more robust during the third quarter, with midsize deals, or those between 10,000 SF to 50,000 SF resurfacing. The Downtown White Plains market led demand with 360,000 SF of transactions year to date.

Notable Year to Date 2024 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
New York State OGS Attorney General	44 South Broadway	White Plains – CBD	Renewal/Expansion	62,019
<i>The government agency is adding a net of 23,000 SF to their original footprint</i>				
Danone North America	1 Maple Avenue	White Plains – CBD	Renewal	45,134
<i>Early renewal and downsize of approximately 40,000 SF</i>				
White Plains Hospital	222 Westchester Avenue	White Plains – East I-287	Renewal/Expansion	37,969
<i>Expansion of its outpatient services by 33,000 SF</i>				
PKF O'Connor Davies	500 Mamaroneck Avenue	Harrison – East I-287	Renewal	35,580
<i>First Quarter 2024 renewals and downsize. The accounting firm gave back 10,300 SF</i>				
New York School of Medicine	4 Westchester Park Drive	White Plains – East I-287	New Lease	31,839
Crypto Tenant	333 Westchester Avenue	White Plains – East I-287	New Lease	28,000
Regus	50 Main Street	White Plains – CBD	Renewal	23,050
<i>The HQ Global Workplaces firm recommitted to the Downtown White Plains market with a second-quarter renewal for their City Square</i>				
New York Life Insurance Company	44 South Broadway	White Plains – CBD	Renewal	22,356
<i>This deal represented a downsize of 156,000 SF</i>				

Source: Newmark Research

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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