WESTCHESTER COUNTY

EXECUTIVE SUMMARY

- The boom in multi-family development in Westchester County is attracting an ever-growing number of Millennials and Baby Boomers out of pricier markets such as New York City. Their respective increased demand for services is anticipated to bode well for office, medical office and retail space across Westchester County into 2020 and beyond.
- Westchester's office market will make continued progress towards recovery. Supply constraints for large blocks of space in the White Plains may translate into some missed opportunities for large user needs in that submarket and even Westchester County.
- A shortage of supply and an aging inventory of industrial space will begin to see a softening in rental rate growth and the continued attrition of e-commerce tenants to neighboring counties or out of state.

Escalating costs in New York City have accelerated the pace of multi-family development and repurposing of all types of space in the county's transit-oriented downtown cores-White Plains, Yonkers and New Rochelle- which are driving most of the demand. A wave of development is also seen, however, in the downtowns of small towns all along the Metro North train stations stretching from Pleasantville to Dobbs Ferry. This increase in rental apartments and mixed-use developments is anticipated to attract a greater population of younger-aged cohorts - the Millenial generation - which have been on the decline in the past few years, as well as empty-nesters (Baby Boomers) that want to be close to amenities. The inevitable increase in demand for services will be auspicious for positive growth in the office and retail property sectors.

Westchester County's office sector appears to be well on its way to reaching equilibrium with a 12.3% vacancy rate at the end of 3rd quarter 2019. The demand for office space has heated up significantly, particularly in the transit-oriented cores of White Plains, Yonkers and New Rochelle, where the boom in multi-family development is attracting Millennials and office tenants. The demand has been such that the White Plains CBD is seeing a shortage of large blocks of space that, absent new office development, could hinder the relocation of future corporate tenants with large footprints in 2020 and beyond.

The retail property sector witnessed as many closures as openings in Westchester County and vacant storefronts are evidence of an ailing mid-market, as was seen with the closing of the 200,000-square foot Walmart store at 275 Main Street in the White Plains CBD, where vacancy rose to 5% year-to-date from 2.5% where it stood at year-end 2019. Conversely, upscale retail, well-located centers with strong anchors, as well as retail that have integrated experiential shopping are doing well. The overall market vacancy rate is a tight 3.1% and rental rates, while not growing, have remained stable. Vacancy is forecasted to remain low but is expected to increase slightly in 2020, as leasing activity is expected to fall. Looking forward, the retail sector is anticipated to grow with the residential and the increase in population.

Falling vacancy in the industrial sector has put upward pressure on rents but rental growth is anticipated to decline gradually past 2020. Despite high demand, the absence of modern space with higher ceilings to meet the future needs of e-commerce companies will likely have some industrial users opting for alternatives in neighboring counties or out of state. Apart from the functional obsolescence of existing industrial buildings, the repurposing of a large number of industrial buildings has contributed to the problem by reducing the overall industrial inventory.

AVISON YOUNG

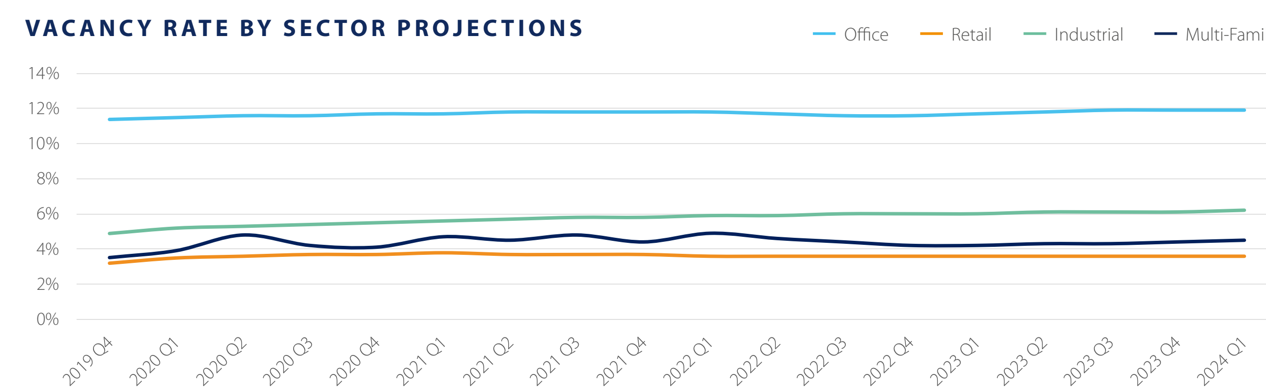
KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	→	↓
Vacant Space	↓	↑	→
Construction Levels	→	↑	→
Leasing Volume	↑	↓	→
Investment Volume	↑	→	↑

Westchester County's proximity to New York City, where escalating costs are becoming increasingly unaffordable to couples and growing families, coupled with the county's multi-family housing boom in transit-oriented urban cores, promises continued growth in population, as well demand for office and retail space in 2020. Industrial space will face some challenges as obsolete inventory fails to meet the demands of modern industrial users.

VACANCY RATE BY SECTOR PROJECTIONS



Source: CoStar Realty Information, Inc.