

# Westchester County

Overall Average Asking Rent



## Pause in New Leasing Activity Marks First Sign of COVID-19 Impact

### Office Market Overview

Although there is generally a time lag before the impact of a crisis is felt in the commercial real estate market, first quarter in Westchester county bore signs of some softening with a slightly increased vacancy rate and negative net absorption. The most significant indicator, however, was leasing volume which was down 53.0 percent year-over-year after several quarters of an upward trend. The level of uncertainty nationwide is such that an outlook at the present time is impossible. As Westchester office market's fundamentals were relatively strong prior to Covid-19's outbreak, it is hoped that pent-up demand and gains seen from earlier quarters will help the market rebound in a relatively short amount of time in the aftermath of the crisis.

### Vacancy

Overall vacancy moved up by 40 basis points (bps) to 12.6 percent in Westchester County quarter-over-quarter, and this owing mostly to the East and West I-287 submarkets in the suburbs which saw 120 and 100 bps increases respectively. Despite the increase, however, vacancy was still down from where it stood two years ago at 14.8 percent. If the current health crisis persists into the following quarter, it is uncertain but, unlikely, that tenants will be keen on moving to new premises. If there is a negative impact in vacancy in subsequent quarters, it will most likely occur in the aftermath of the crisis.

### Leasing

While most transactions that were underway moved forward and closed, there was a distinct pause in all new leasing activity in the market after the outbreak of COVID-19 and the bulk of new lease transactions that did occur were early on in the quarter. Overall leasing velocity was down 53.0 percent year-over-year, putting upward pressure on vacancy. The top lease transaction of the quarter inked in February 2020 by Derspath Diagnostics was for 25,000 square feet (SF) at 1133 Westchester Avenue in White Plains, in the East I-287 submarket.

### Absorption

Net absorption closed on the negative side with 154,483 square feet (SF). This drop was driven mostly by the East I-287 submarket which recorded -106,766 SF in net absorption at quarter's end. While the submarket saw the highest leasing activity in the previous quarter, large blocks of space were returned to the market in the first quarter. Amid the novel coronavirus outbreak, a fair number of the newly signed tenants had yet to effectuate on their moves. As such, these were not reflected in the quarter's gross absorption figures which could have helped offset the negative impact.

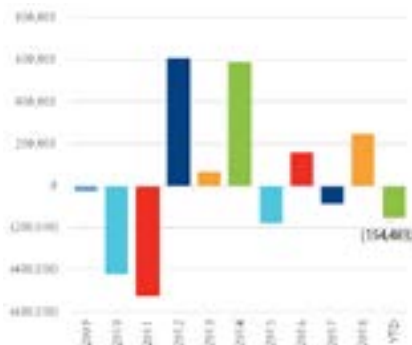
### Asking Rate

The market-wide average asking rent of \$28.03 per square foot (PSF) was 6.8 percent higher year-over-year. The highest increases were in the West I-287 and the White Plains CBD submarkets which increased 8.0 percent and 11.3 percent year over year, respectively.

Overall Historical Vacancy

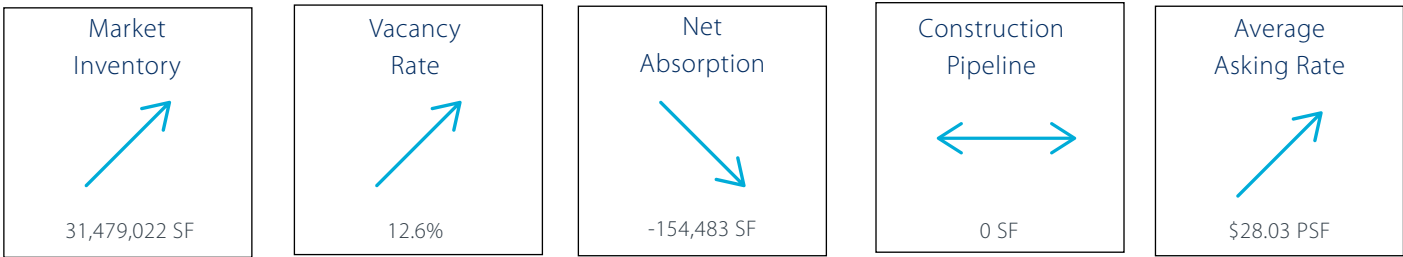


Overall Historical Net Absorption



# Office Market Snapshot

Below are 2020 year-to-date overall market indicators for Westchester County's office market compared to the first quarter of 2019:



## Notable Lease Transactions

| Tenant                                       | Property/Submarket              | SF/Type    |
|--|---------------------------------|------------|
| Dermopath Diagnostics                        | 1133 Westchester Ave/East I-287 | 25,000/New |
| Turtle Beach                                 | 44 S Broadway/White Plains CBD  | 16,000/New |
| AMS  | 480 Bedford Rd/Northern         | 15,000/New |
| Schott AG                                    | 2 International Dr/East I-287   | 14,802/New |
| Marshall Dennehey Warner Coleman & Goggin PC | 287 Bowman Ave/East I-287       | 13,000/New |
| East River Imaging                           | 1133 Westchester Ave/East I-287 | 9,675/New  |

## Notable Sales Transactions

| Address/Submarket                     | Buyer/Seller  | Price/ Price PSF     |
|---------------------------------------|---|----------------------|
| 100,200 & 500 Summit Lake Dr/Northern | Cappelli Organization/ SL Green Corp. LLC                 | \$113,700,000/ \$157 |
| 140 Grand St/East I-287               | Jack Sitt Real Estate LLC/ Westport Capital Partners, LLC | \$26,520,000/ \$220  |
| 150 Grand St/East I-287               | Jack Sitt Real Estate LLC/ Westport Capital Partners, LLC | \$15,980,000/ \$176  |



150 Grand St, White Plains  
90,966 SF



140 Grand St, White Plains  
120,275 SF

## Trends to Watch

- Watch for both landlords and tenants looking into *force majeure* clauses in their lease agreements to see if there are any potential remedies for failure to perform their leasehold obligations. Additionally, to note are new tenants scheduled to move into a new space seeking to extend their lease start date and postpone their rental payments where access to the premises was restricted.
- By many accounts, the current health crisis is thought to be the tipping point for increased remote working, reduced office footprints, increased use of technology, virtual touring, and could signal the demise of co-working. While remote working was on the increase, even before the crisis, there are companies that may not be convinced that their industries lend themselves well to remote working. Virtual touring has been more widely accepted in residential brokerage, while there are many factors to consider before commercial real estate adopts a full-scale implementation of virtual touring. Lastly, the lessons learned from the current crisis may benefit the flexible office and co-working offices in suburban markets as companies in population-dense markets (such as Manhattan) shift more focus on ensuring employee safety and business continuity in the aftermath of this crisis.

# COVID-19 Impact

**Information and views were correct at the time of writing (April 17, 2020). However, given that the spread of COVID-19 and the containment policies being introduced are changing rapidly, some of the views expressed in this report as a whole may not reflect the latest opinion of Avison Young.**

Nationally, the effects of COVID-19 on the economy were already evident by end of the first quarter 2020 with plunging employment, by more than 701,000 jobs lost month-over-month and rising unemployment, recording 4.4 percent at the end of March 2020. It is uncertain what trajectory the unemployment rate will take in the coming months but several forecasts call for a surge in unemployment in 2020. The extent of the impact is such that some economists are heralding a United States recession that could be worse than that of the Great Depression which lasted three years and seven months.

Predictions for the timing of an economic recovery according to reputable economic think tanks range from a few quarters to three years from the start of the recession. This recession would come after 10.5 years of a national economic expansion cycle- longer than what the United States witnessed in the 1991 to 2001 expansionary period. There have been 17 key recessions in the history of the United States with an average duration of about 11 months. Key to this recession, and reason for some optimism, is that the cause for the decline was not owing to a systemic decline of the financial system as was the case in 2008. If the virus could be brought under control within the next few months, there is a general consensus amongst many economists that the economy will recover fairly quickly. Looking

forward, the greatest challenge to a complete recovery will be fear itself from consumers and businesses as they grapple their way back to normalcy in their spending and investment patterns.

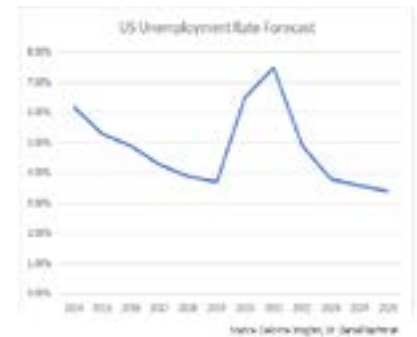
## State of New York and Westchester County

By the close of March 2020, the state of New York's unemployment rate rose 50 basis points (bps) month-over-month to 4.4 percent and 417,800 unemployed. The number of people filing for unemployment benefits in New York State- one of the hardest hit states in the nation- was so overwhelming that employees were overcapacity in processing the claims. In a one-week period ending March 28, 2020, there were 369,025 more claims than there were in the previous year.

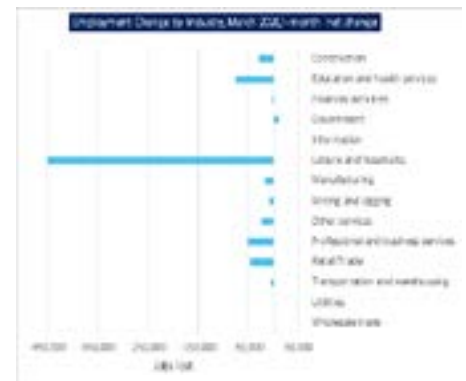
In Westchester County, there were 5,700 net job losses year-over year at the close of March 2020. Not surprisingly, the most job losses amongst the sectors were seen in the sectors of Leisure and Hospitality (-7.60 percent), with the loss of 4,800 jobs. Employment in Professional and Business Services and Health Care and Social Assistance sectors increased by 2.40 percent (2,200 jobs) and 3.60 percent (4,600 jobs), respectively.

| Recession                     | GDP Contraction | Duration        | Time Until Next Recession |
|-------------------------------|-----------------|-----------------|---------------------------|
| August 1929 - March 1933      | -26.7%          | 3 Year 7 Months | 4 Years 2 Months          |
| May 1937 - June 1938          | -18.2%          | 1 Year 1 Month  | 6 Years 8 Months          |
| February 1945 - October 1945  | -12.7%          | 8 Months        | 3 Years 1 Months          |
| November 1948 - October 1949  | -1.7%           | 11 Months       | 3 Years 9 Months          |
| July 1953 - May 1954          | -2.6%           | 10 Months       | 3 Years 3 Months          |
| August 1957 - April 1958      | -3.7%           | 8 Months        | 2 Years                   |
| April 1960 - February 1961    | 1.6%            | 10 Months       | 8 Years 10 Months         |
| December 1969 - November 1970 | -0.6%           | 11 Months       | 3 Years                   |
| November 1973 - March 1975    | -3.2%           | 1 Year 4 Months | 4 Years 10 Months         |
| January 1980 - July 1980      | -2.2%           | 6 Months        | 1 Year                    |
| July 1981 - November 1982     | -2.7%           | 1 Year 4 Months | 7 Years 8 Months          |
| July 1990 - March 1991        | -1.4%           | 8 Months        | 10 Years                  |
| March 2001 - November 2001    | -0.3%           | 8 Months        | 6 Years 1 Months          |
| December 2007 - June 2009     | -4.3%           | 1 Year 6 Months | ???                       |

Source: National Bureau of Economic Research

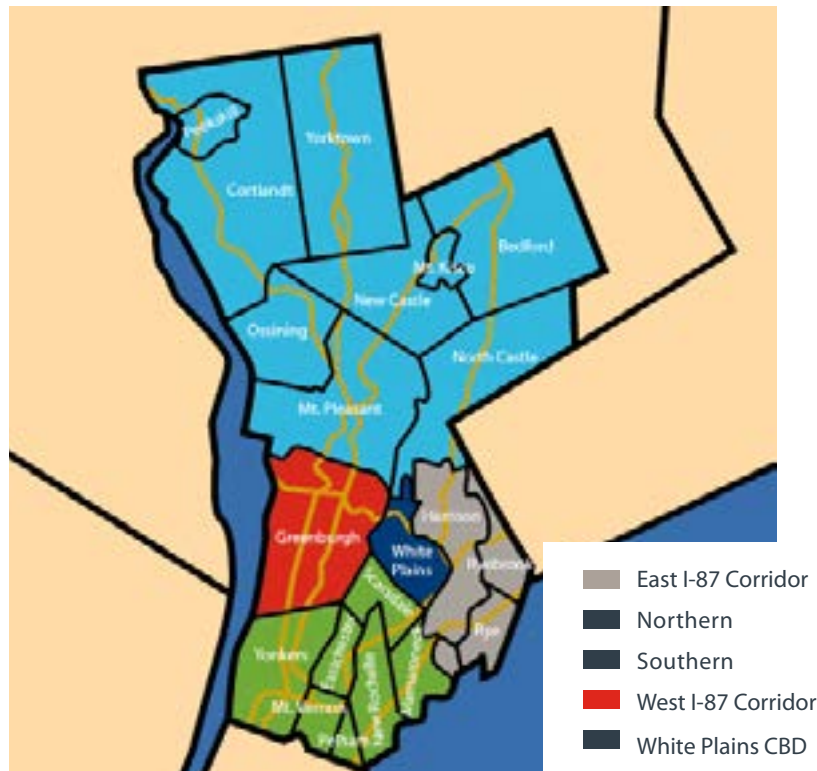


National Employment Change by Industry, March 2020, 1-month net change



Source: Bureau of Labor Statistics

### Westchester County Submarkets



### White Plains CBD



### Market By The Numbers

| Submarket             | Inventory (SF)    | Vacant (SF)      | Vacancy (%)  | Vacancy Trend (Q2'18- Q2'19) | Vacant Available Percent % Total | 2Q19 Net Absorption (SF) | Year-to-Date Absorption | Under Construction (SF) | Overall Average Asking Rent |
|-----------------------|-------------------|------------------|--------------|------------------------------|----------------------------------|--------------------------|-------------------------|-------------------------|-----------------------------|
| Northern              | 6,871,674         | 1,151,259        | 16.8%        | Down                         | 19.4%                            | 415                      | 415                     | 0                       | \$23.48                     |
| West I-287            | 3,684,280         | 428,571          | 11.6%        | Down                         | 23.4%                            | -34,842                  | -34,842                 | 0                       | \$26.61                     |
| East I-287            | 9,911,279         | 1,407,537        | 14.2%        | Flat                         | 20.7%                            | -106,766                 | -106,766                | 0                       | \$28.45                     |
| Southern              | 4,934,146         | 342,228          | 6.9%         | Flat                         | 11.5%                            | 3,291                    | 3,291                   | 0                       | \$25.44                     |
| <b>Suburban Total</b> | <b>25,401,379</b> | <b>3,329,595</b> | <b>13.1%</b> | <b>Flat</b>                  | <b>12.5%</b>                     | <b>-137,902</b>          | <b>-137,902</b>         | <b>0</b>                | <b>\$26.20</b>              |
| White Plains CBD      | 6,077,643         | 647,078          | 10.6%        | Down                         | 15.0%                            | -16,581                  | -16,581                 | 0                       | \$35.30                     |
| <b>Market Total</b>   | <b>31,479,022</b> | <b>3,976,673</b> | <b>12.6%</b> | <b>Up</b>                    | <b>18.2%</b>                     | <b>-154,483</b>          | <b>-154,483</b>         | <b>0</b>                | <b>\$28.03</b>              |



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Properties

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