

WESTCHESTER COUNTY OFFICE MARKET

WESTCHESTER MAINTAINS POSITIVE MOMENTUM DESPITE LOWER LEASING VOLUMES

Positive momentum continued through the second quarter of 2018 for Westchester County's office market despite a 38.6% decline in the gross leasing volume over the past year. With only 315,500 square feet of leasing activity completed this quarter, the county posted modest occupancy gains, finishing its seventh consecutive period of positive absorption. Since year-end 2016, the county has gained more than 700,000 square feet in occupancy, including 85,805 square feet recorded year-to-date. The White Plains Central Business District has captured 59.1% or 423,000 square feet, of those net gains, followed by the Eastern market with 14.1%, or 100,000 square feet, while the remainder has been spread throughout the Southern, Western and Northern markets.

Overall availability inched down to 21.9%, from 22.2% in the previous quarter and from 22.8% in the prior year. Although Class A availability in the northern market, where the majority of the inventory is concentrated, has improved since last year, it continues to hover in the high 30s, weighing down on the rest of the county's overall availability rate. Without just a few uncompetitive blocks in the northern market, availability would lead to a more realistic figure of 14.2%. This is the lowest level of availability the county has seen in nearly 15 years, driven by robust leasing in the White Plains CBD as well as the shortage of quality inventory throughout the county.

At the end of the second quarter, the average asking rent stood at \$26.80/SF, up 1.1% from \$26.52/SF a year ago. At this rate, pricing also remains skewed by a few uncompetitive large blocks of space in the north, which have a significantly lower quoted rent than asking rents in lower parts of the county. In fact, in the past 36 months, Class A rental rates in the White Plains Central Business District (CBD) market have gone up by nearly 10.0%, from \$31.72/SF to \$34.78/SF at the close of the second quarter.

DECREASES IN AVAILABILITY SEEN IN MOST MARKETS

The largest drop in availability over the past year occurred in the Class A Southern market, where a 4.9 percentage point decrease was recorded from 22.3% a year ago to 17.4%. This was mainly due to significant leasing at 20 Cedar Street in New Rochelle, where a total of 32,000 square feet has been tracked year-to-date, including a 22,000-square-foot new lease for Montefiore Medical Center. As a result, availability in the entire Southern market decreased from 17.0% in the

CURRENT CONDITIONS

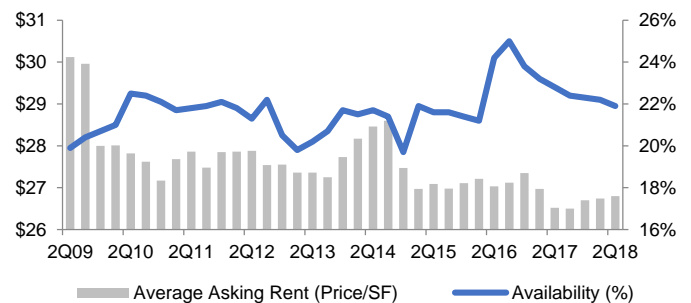
Overall availability inched down to 21.9%, from 22.2% in the previous quarter and from 22.8% in the prior year.

Second-quarter gross leasing activity totaled 315,500 SF, down 38.6% year-over-year. On a midyear comparison, the leasing totaled only 770,000 square feet, down 22.1% from midyear 2017.

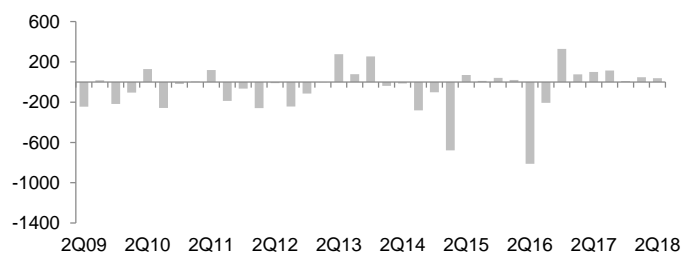
The weighted average asking rent stood at \$26.80/SF, up 1.1% from \$26.52/SF a year ago.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	27.4MSF	27.7MSF	27.7MSF	↓
Availability Rate	21.9%	22.2%	22.8%	↓
Quarterly Net Absorption	37,796	48,009	100,288	↑
Average Asking Rent	\$26.80	\$26.74	\$26.52	↑
Under Construction	0	0	0	↑
Deliveries	0	0	0	↓

second quarter of 2017 to 13.9%, the lowest level in the county. As a result of a flurry of small leases signed within the past year, Class B availability in the Western market also recorded a notable decrease, from 16.3% last year to 13.8%.

This pushed the Western market's overall availability to 20.8%, down from 22.3% in the prior year. Availability in the Class B Northern market decreased by 2.3 percentage points to 27.5%, from 29.8% in the same period last year. This was mainly attributed to leases including Burke Rehabilitation Hospital's 24,000-square-foot deal at 99 Business Park Drive in Armonk, which occurred at the end of last year, and most recently to a 10,287-square-foot expansion deal signed by Schmersal at 15 Skyline Drive in Hawthorne. In the Eastern market, availability for Class B product increased by 1.6 percentage points to 16.1%, yet the overall rate finished 0.2 percentage points lower at 15.2%.

A STRENGTHENING CAPITAL MARKETS LANDSCAPE

The capital markets landscape appears to be strengthening, as investors continue to find opportunities to deploy capital in assets where the risk/return projections are considered favorable. Sales volume for the first half of 2018 reached \$218.0 million, up slightly from \$216.0 million a year ago. This volume stood well above the five-year midyear historical average of \$151.0 million. The largest transaction occurred in Downtown White Plains, where Ginsburg Development, in partnership with Robert Martin Company, acquired the Westchester Financial Center for \$83.0 million, or \$145/SF, from Mack-Cali Realty.

The new ownership plans to use the properties, along with an apartment building on the same block at 34 South Lexington it recently purchased, to create a new "City Square" concept that includes new apartment units, retail, restaurants, office space and green areas. These three properties also share a block adjacent to the White Plains Metro North train station, an area that is undergoing a \$94.0 million renovation.

MORE BUILDING CONVERSIONS ON THE HORIZON

While some investors continue to look for yield in high-quality assets in urban markets, others have shifted their focus to value-add, Class B assets in secondary and tertiary markets that provide upside potential with capital improvements. For some of these assets, there continues to be a trend of office conversions to alternate uses. In the past 24 months, a total of 1.3 million square feet of space in the county has been repurposed from office to other uses, including residential, warehouse, assisted living facilities and fitness centers.

This trend is anticipated to continue in the near term with two properties, 3 Westchester Park Drive in White Plains and 200 White Plains Road in Tarrytown, reportedly under contract with future plans for residential conversion. In addition, under the plans disclosed by Ginsburg for the newly purchased Westchester Financial Center, part of the space at 1-11 Martine Avenue would be converted into luxury residential apartments. With an ever-shrinking office base, conditions in the lower Westchester county market are expected to tighten even further.

Top Midyear 2018 Lease Transactions

Tenant	Address	Submarket	Type	Square Feet
Towers Watson	44 South Broadway	White Plains CBD	Renewal	46,682
Montefiore Medical Center	20 Cedar Street	Southern	New Lease	22,000
The Standard Life Insurance	333 Westchester Avenue	Eastern White Plains	New Lease	21,793
Regus	520 White Plains Road	Western	Renewal	20,538
Stark Business Solutions	445 Hamilton Avenue	White Plains CBD	Renewal/Expansion	20,028
Societe Generale	44 South Broadway	White Plains CBD	Renewal	17,728

Select Midyear 2018 Sale Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
1-11 Martine Avenue & 50 Main Street	White Plains CBD	\$83,000,000	\$145	571,000
925 & 1025 Westchester Avenue	Eastern White Plains	\$14,750,000	\$77	192,863
115 & 117 Stevens Avenue	Northern	\$12,000,000	\$66	182,630
3 Westchester Park Drive	Eastern	\$10,450,000	\$65	159,628

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)
Eastern Westchester	9,687,982	-	15.2%	52,503	10,051	\$27.18	\$26.67
Northern Westchester	7,263,498	-	35.9%	8,401	60,146	\$24.68	-
Southern Westchester	1,823,082	-	13.9%	10,324	49,864	\$25.43	\$20.00
Western Westchester	3,738,858	-	20.8%	- 523	12,920	\$25.09	\$17.99
White Plains CBD	5,094,687	-	18.1%	-32,909	-47,176	\$34.28	\$21.70
Westchester County	27,608,107	-	21.9%	37,796	85,805	\$26.80	\$21.78

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)
Eastern Westchester	8,494,573	-	15.1%	53,308	12,003	\$27.60	\$26.67
Northern Westchester	5,642,389	-	38.4%	-1,886	37,015	\$24.78	-
Southern Westchester	1,148,403	-	17.4%	8,299	36,501	\$26.92	\$20.00
Western Westchester	2,613,478	-	23.7%	3,205	-12,677	\$25.51	\$17.99
White Plains CBD	4,556,103	-	19.1%	-25,301	-43,129	\$34.78	\$21.70
Westchester County	22,454,946	-	22.9%	37,625	29,713	\$27.30	\$21.78

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)
Eastern Westchester	1,193,409	-	16.1%	-805	-1,952	\$23.98	-
Northern Westchester	1,621,109	-	27.5%	10,287	23,131	\$24.21	-
Southern Westchester	674,679	-	7.8%	2,025	13,363	\$20.04	-
Western Westchester	1,125,380	-	13.8%	-3,728	25,597	\$24.00	-
White Plains CBD	538,584	-	9.5%	-7,608	-4,047	\$26.54	-
Westchester County	5,153,161	-	17.4%	171	56,092	\$24.01	-

ECONOMIC CONDITIONS

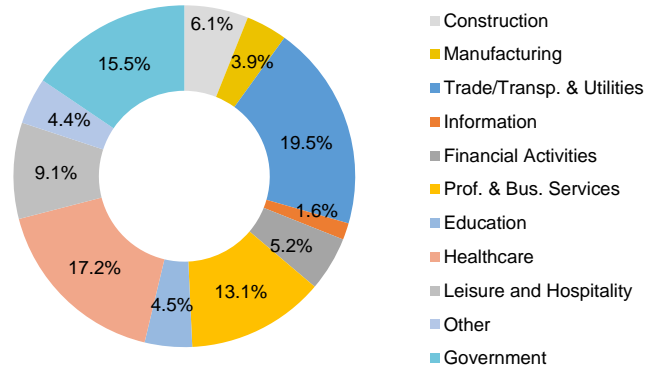
For the 12-month period ending in May 2018, private-sector employment in the region grew by 10,100, or 1.3%, to 811,600. The year-over-year picture remained positive, as six sectors added jobs, while only three saw declines.

Gains were the largest in education and health services (+6,200), construction (+2,800), professional and business services (+2,300) leisure and hospitality (+1,600) and financial activities (+200) sectors. By contrast, job losses were once again centered in trade, transportation and utilities (negative 1,500), information (negative 1,000) and manufacturing (negative 900).

As of May 2018, Westchester County's unemployment rate stood at 3.8%, down from 4.3% a year ago.

EMPLOYMENT BY INDUSTRY

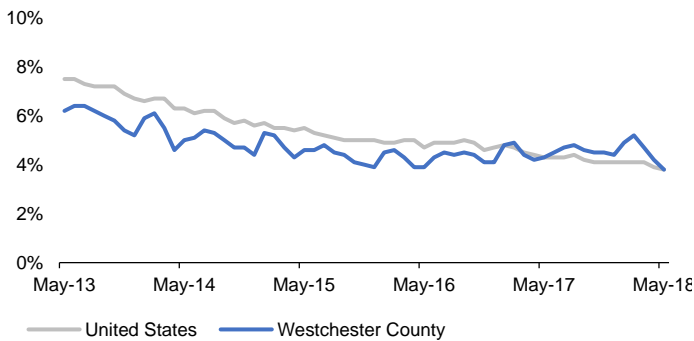
Westchester-Orange-Rockland, 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

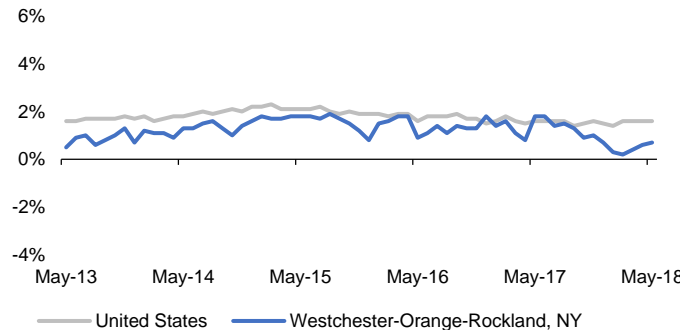
Not Seasonally Adjusted



Source: New York State Department of Labor

PAYROLL EMPLOYMENT

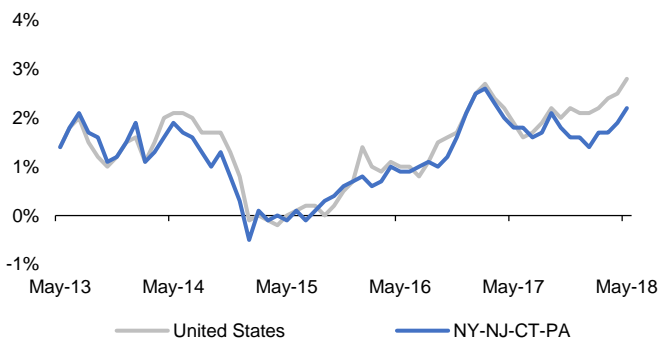
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

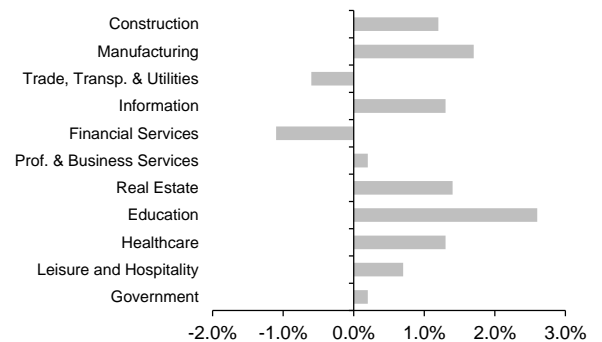
All Items, 12-Month % Change, Not Seasonally Adjusted



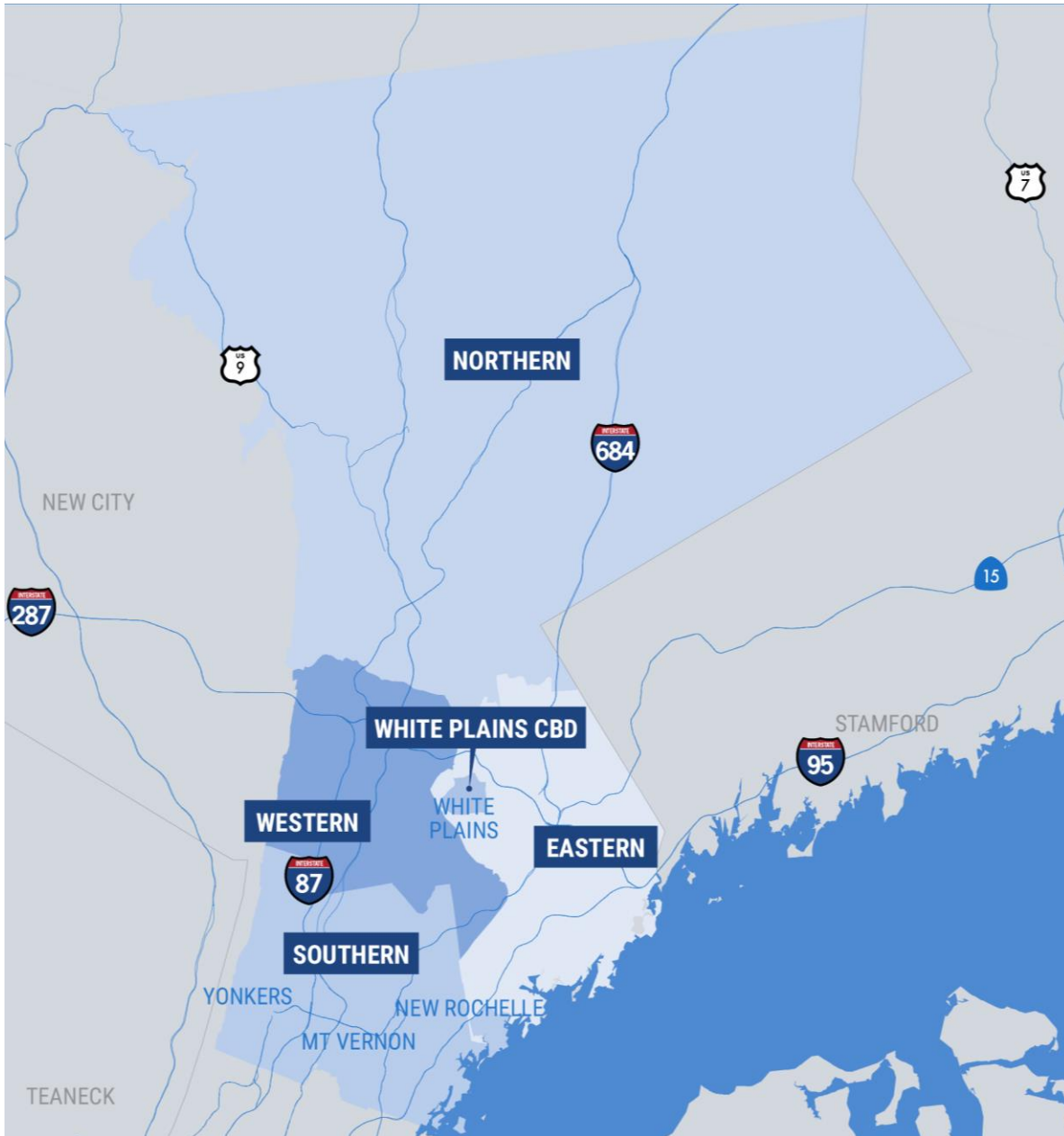
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Westchester-Orange-Rockland, NY, 12-Month % Change, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



Karolina Alexandre
 Research Manager
 203.531.3609
 kalexandre@ngkf.com

Westchester County, NY
 800 Westchester Avenue
 Rye Brook, NY 10573
 914.881.1024

Fairfield County, CT
 680 Washington Boulevard
 Stamford, CT 06901
 203.531.3600

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