

Market Report WESTCHESTER COUNTY OFFICE 4Q 2017



Accelerating success.

	4Q 2017	Quarter-to-Quarter Change	Year-to-Year Change	YTD 2017
Leasing Activity SF	339,851	↓ (323,291)	↑ 428,119	2,429,235
Absorption SF	(50,212)	↓ (42,752)	↓ (496,783)	(508,701)
Availability Rate	22.2%	↑ 20 bps	↑ 30 bps	
Average Asking Rent	\$26.75	↑ \$.05	↓ (\$0.21)	

Note: bps (basis points)



Overall

Westchester County's office market started the year off with a bang, with several large occupiers signing new leases, and even as activity slowed in the second half, leasing activity still reached the second highest annual total on record.

Total leasing for the quarter fell by almost half compared to last, ending with 339,851 SF of leases being signed. The lack of large deals was the primary culprit, exemplified by the largest lease, which was 38,128 SF, signed by ENT Allergy in the West I-287 submarket. However, this quarter's activity helped bring the annual total to 2.4 million SF (MSF), just 255,000 shy of the highest figure recorded in 2015.

The number of employed has risen, by just under 1.0% since last year, but has not kept pace with the growth in the labor force. This, combined with a slight uptick in the number of unemployed, has led to a fairly significant 50 bps increase in the unemployment rate since last year.

The mini-development boom happening in cities like White Plains, New Rochelle and Yonkers, will primarily bring new residential and retail mix to the area, however, some new office will be developed as well, though the amount remains to be seen. More importantly, the new residential developments will likely support fresh population, in turn growing the labor force, giving occupiers here access to more employees and potential customers – a net positive for the office market here.

Despite the increase in availability, there is a limited supply of large contiguous blocks of space, especially those of quality in in submarkets which have amenities that today's occupiers seek, which means next year will likely lack the blockbuster deals seen in the first quarter of 2017.

Absorption

Westchester's net absorption fell into the red in the fourth quarter, with negative 50,212 SF, bringing the full year net absorption total to negative 508,701 SF. Despite the seemingly high negative absorption, the annual total was heavily impacted by the formal marketing of the former IBM headquarters in Somers, which added roughly 1.0 MSF of space to the market in the beginning of the year. As a percentage of available space, which is helpful to assess the rate at which space is being absorbed, the West I-287 submarket fared the best with a 8.6% versus -4.2% in the East I-287 submarket.

Availability

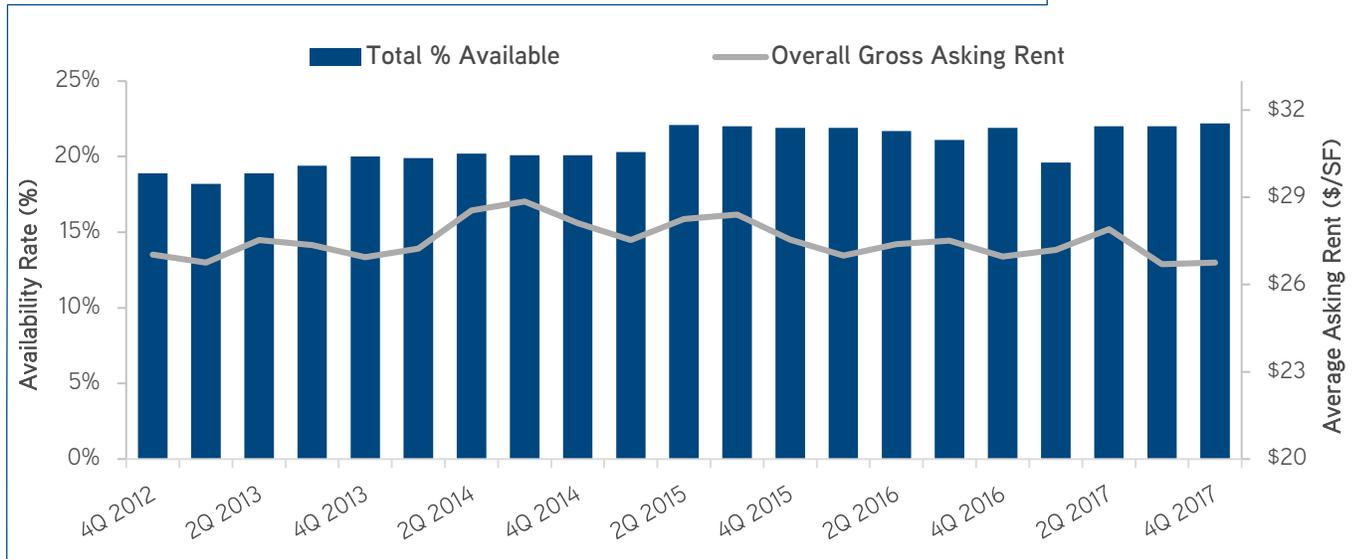
After falling to 19.6% in the first quarter, a low not seen since 3Q 2013, the availability rate climbed, albeit slowly, for the rest of the year, finally settling this quarter at 22.2%. Remarkably, just two properties, the former headquarters for IBM and Pepsi, account for 24.4% of the total available space in the County. Without these two properties, the County's availability rate would drop to just 16.8%. Both properties are located in the Northern submarket, where the availability rate climbed another 90 bps from last quarter to 37.7% - the highest rate in the County versus the Southern submarket, which has the lowest at 12.0%.

Rental Rates

Westchester's average asking lease rate was essentially unchanged from last year, dipping by \$0.21/SF to \$26.75/SF. Class B properties outperformed this quarter, rising 2.2% year-over-year to \$25.43/SF versus Class A, where rates fell by 5.8% to \$27.25/SF.

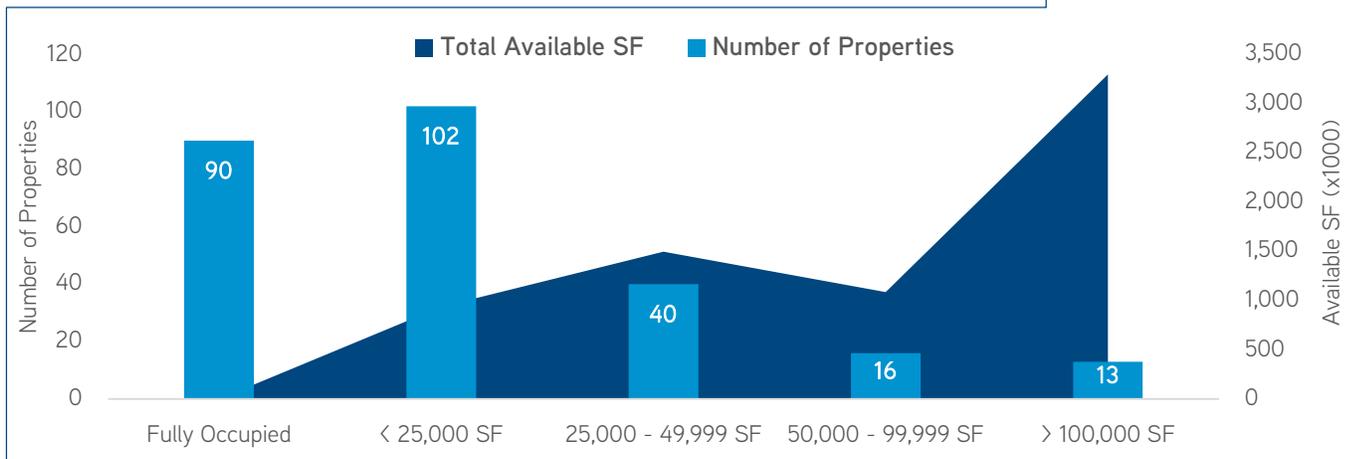
¹ Colliers International Research includes office space within the availability rate only if it is actively being marketed with a possession date for tenant build-out within 12 months.

Westchester County | Total Average Asking Rent and Total Availability Rate



Source: Colliers International Research, 4Q 2017

Westchester County | Available Blocks of Space



Source: Colliers International Research, 4Q 2017

Leasing Activity

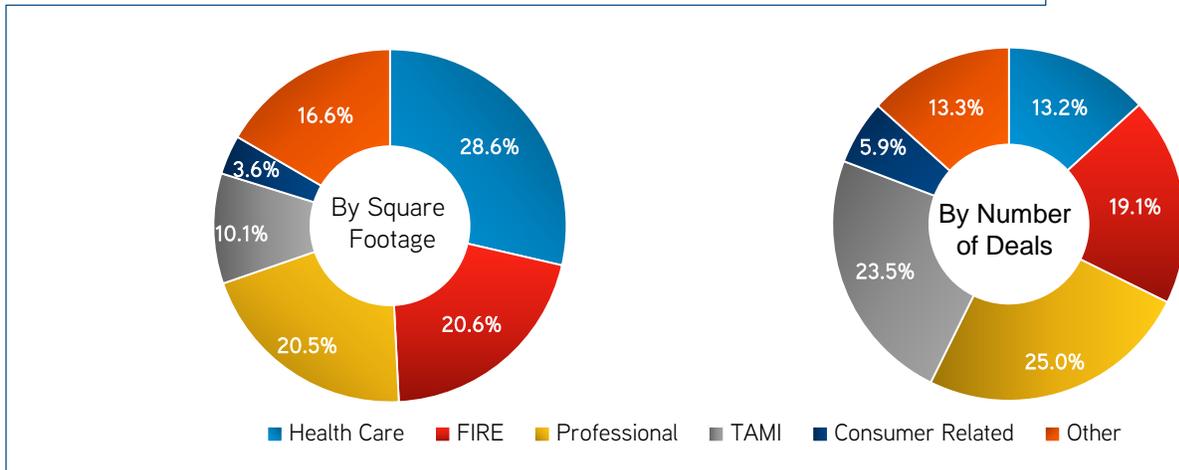
Although the fourth quarter's leasing volume was lackluster, reaching just 339,851 SF, it still brought the annual total to 2.4 MSF, now the second highest total on record, just 7.7% shy of 2.6 MSF signed in 2015. The largest lease signed this quarter was by ENT Allergy & Associates for 38,128 SF at 660 White Plains Road in Tarrytown, a far cry from the largest lease signed during the year by Montefiore for 281,497 SF, though both are good examples of how important the health care industry has become in the County. Both new leases and renewals were almost equally split this quarter, with renewals accounting for 51.0% of the total volume versus 49.0% for new activity, signaling perhaps some hesitation on behalf of current occupiers.

The East I-287 submarket led the County in leasing volume this quarter accounting for 28.9% of the total activity, followed closely by the West I-287 and White Plains CBD submarket, which drove 27.9% and 27.0% respectively. The Northern Westchester submarket came in last making up just 4.4% of the County's total volume, as the area struggles to attract new occupiers, which tend to prefer denser environments. Occupiers were almost equally split in their preference for class this quarter, with Class A properties capturing 54.5% of the total volume. However, far more of the new activity was signed at Class B properties, at 29.7% vs. 19.4% for Class A, suggesting that price was more of a concern to those occupiers that wanted to move.

Occupiers within the health care industry signed 97,413 SF this quarter, which was 28.6% of the total volume, underscoring the importance of this industry to the County. The FIRE (finance, insurance, and real estate) sector came in second, driving 20.6% of the activity, helped by Commerzbank Disaster Recovery's 31,520 SF deal at 6 International Drive in Rye, the second biggest deal of the quarter. Professional services companies came in third, responsible for 20.5% of all activity.

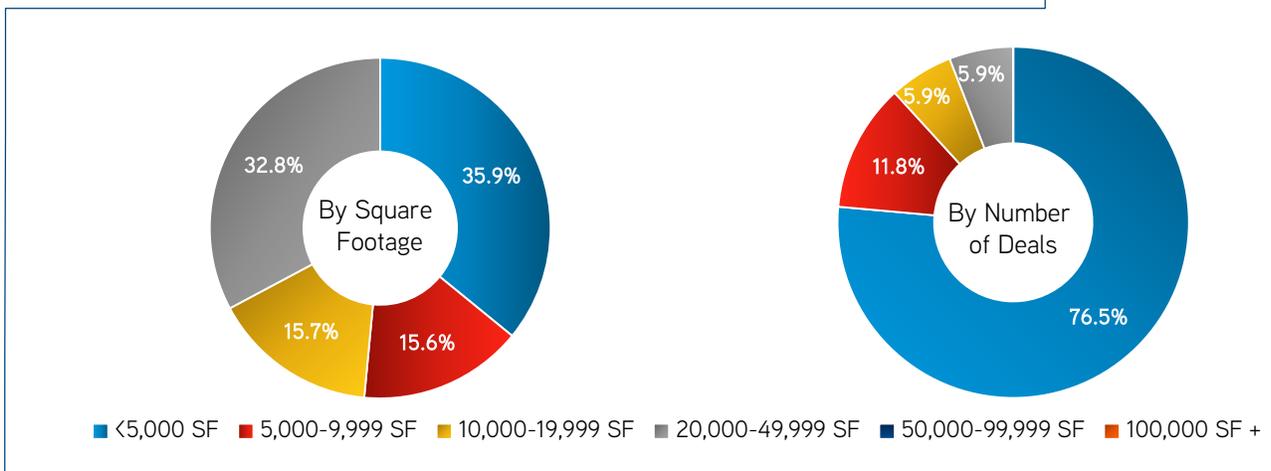
Limited large blocks of contiguous space, particularly in the most desirable submarkets like White Plains CBD, means 2018's volume will likely be just as limited, unless there is a surge of activity among smaller occupiers or larger occupiers that renew.

Westchester County | Leasing Activity by Industry



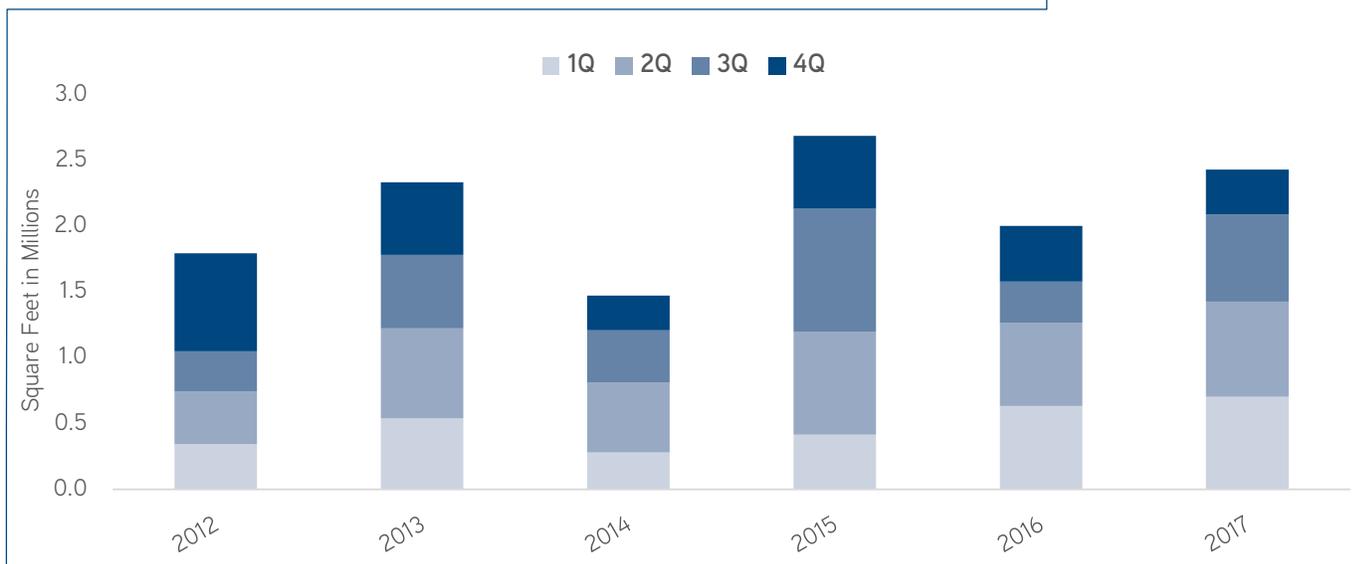
Source: Colliers International Research, 4Q 2017

Westchester County | Leasing Activity by Size



Source: Colliers International Research, 4Q 2017

Westchester County | Overall Leasing Activity

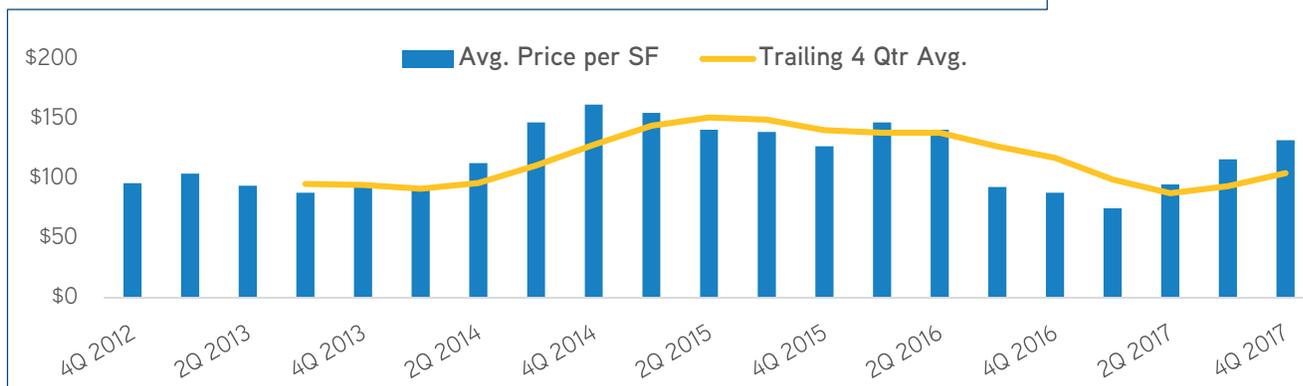


Source: Colliers International Research, 4Q 2017

Investment Sales

Similar to the leasing market, investment sales for office properties was quiet last quarter, with just three trades over \$2 million, representing \$19.0 million in total volume. The most notable trade was the Class B, 70,000-SF office building at 7-11 S. Broadway in the White Plains CBD submarket. It sold to Empire Residential, a local owner and developer, via a 1031 exchange for \$9.6 million, or \$137/SF. Looking forward to 2018, the rising interest rates may start to have an impact on acquisition costs. According to Colliers' Chief Economist Andrew Nelson, "Interest rates may rise faster after the tax cut due to the greater national debt and more aggressive rate hikes". While this will have an impact on overall property costs, the outlook bodes well for suburban markets as the increased pricing in primary CBDs may steer investors to the suburbs where yields are stronger.

Westchester County | Office Pricing

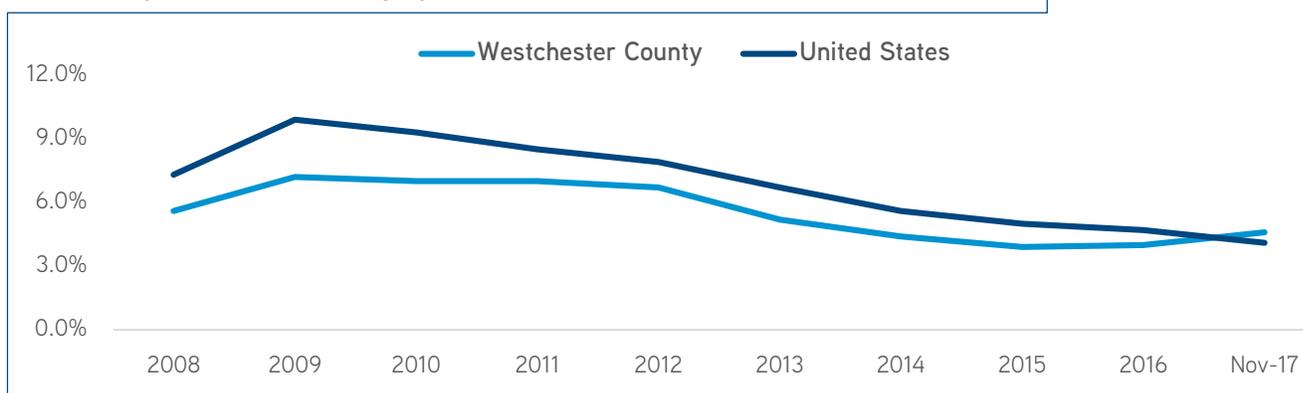


Source: Real Capital Analytics, 4Q 2017

Employment

Westchester County's unemployment rate for November 2017 came in at 4.6%, a 50 bps increase since last year. The labor force and the number of employed grew slightly, by 1.5% and 0.9% respectively, but the number of unemployed jumped sharply by 13.9% year-over-year. One of the largest contributors to the increase was the closure of the Indian Point Nuclear Energy Plant, which affected 73 employees in 2017, but that number will continue to grow until the planned closure in 2020-2021. While now slightly higher than the national unemployment rate of 4.1%, it is still 350 bps lower than the peak recessionary unemployment rate reached in 2010. Westchester's office-using employment, defined as employment within the information, finance, professional, and other industries, grew by 0.9% from the end of last year to 115,905 employees, but is still 3.9% lower than the height reached just prior to the recession in 2008.

Westchester County vs. U.S. | Unemployment



Source: New York State Dept. of Labor, November 2017.

Conclusion

Despite the surge in activity in the first quarter, the office market in Westchester County ended the year in almost the same exact position as last year, primarily due to weakness in the Northern market. If one were to exclude the two largest blocks of space there, the County's availability rate would drop 540 bps from the current rate of 22.2% to 16.8% – a rate which is likely more representative of conditions most occupiers are facing. Positive economic conditions, if they continue, will likely translate into a positive upcoming year for Westchester's office market, but the lack of large blocks of contiguous space in the most desirable submarkets, along with repeated attacks on the Affordable Care Act, will likely be the largest constraints on activity in the near term.

Westchester County Top 4Q 2017 New Leases

Submarket	City	Address	SF Leased	Tenant	Sector
West I-287	Tarrytown	660 White Plains Rd.	38,128	ENT Allergy & Associates	Health Care
Southern WCH	Yonkers	30 S. Broadway	12,000	Sancia Wellness	Health Care
East I-287	White Plains	1133 Westchester Ave.	10,000	Hiscox Business Insurance	FIRE
White Plains CBD	White Plains	222 Bloomingdale Rd.	5,365	Monte Nido NYC	Health Care
White Plains CBD	White Plains	44 S. Broadway	5,134	PURE Insurance	Insurance

Westchester County Top 4Q 2017 Renewals

Submarket	City	Address	SF Leased	Tenant	Sector
East I-287	Rye Brook	6 International Dr.	31,520	CommerzBank	FIRE
East I-287	Purchase	2 Manhattanville Rd.	21,118	Teladoc	Health Care
White Plains CBD	White Plains	10 Bank St.	20,845	Eckert, Seamans, Cherin, & Mellott, LLP	Professional
White Plains CBD	White Plains	1 N Broadway	19,534	MCI	TAMI
West I-287	Tarrytown	560 White Plains Rd.	7,954	Oracle America	TAMI

Westchester County 4Q 2017 Lease Quick Facts

Total Count	Total New	Total Renewals	Total Volume	Avg. Deal Size
68	40	28	339,851	4,997

ECONOMIC INDICATORS

GDP
Gross Domestic Product

3.2% (Dec 2017)



Increase from
Sept. 2017

CCI
Consumer Confidence Index

122.1 (Dec. 2017)



Increase from
Sept. 2017

**WESTCHESTER
COUNTY**

Unemployment Rate

4.6% (Nov. 2017)



No Change from
Aug. 2017

Source: U.S. Department of Commerce, The Conference Board, Connecticut Department of Labor

Westchester County Market Overview

Submarket	Inventory	Overall Availability Rate	Leasing Activity (QTR)	Net Absorption (QTR)	Overall Average Asking Rent	Class A Average Asking Rent	Class B Average Asking Rent
East I-287 	10,273,550	17.7%	98,486	(73,548)	\$27.99/fs	\$28.76/fs	\$25.86/fs
West I-287 	3,523,803	22.1%	94,824	73,584	\$25.13/fs	\$29.21/fs	\$24.59/fs
Southern WCH 	3,375,923	12.0%	39,864	16,803	\$25.24/fs	\$27.47/fs	\$24.03/fs
Northern WCH 	7,014,915	37.7%	14,828	(61,932)	\$24.91/fs	\$24.82/fs	\$25.58/fs
White Plains CBD 	5,852,248	17.4%	91,849	(5,119)	\$32.92/fs	\$34.81/fs	\$27.10/fs
Westchester County 	30,040,439	22.2%	339,851	(50,212)	\$26.75/fs	\$27.25/fs	\$25.34/fs

396 offices in
68 countries on
6 continents

United States: **153**

Canada: **29**

Latin America: **24**

Asia Pacific: **36**

AZN: **42**

EMEA: **111**

\$2.6

billion in annual
revenue

2.0

billion square feet
under management

15,000

professionals
and staff

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