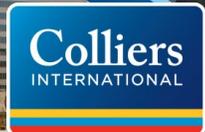


Market Report WESTCHESTER COUNTY OFFICE Q1 2019



Accelerating success.

		Q1 2019	Quarter-to-Quarter Change	Year-to-Year Change	YTD 2019
	Leasing Activity SF	378,047	↓ (112,575)	↑ 31,910	378,047
	Absorption SF	209,947	↑ 342,729	↑ 253,022	209,947
	Availability Rate¹	22.0%	↓ 60 BPS	↓ 30 BPS	
	Average Asking Rent	\$26.51	↓ (2.7%)	↑ 0.2%	

Note: BPS (basis points)



Overall

Westchester County's office market started the year on a positive note with gains in occupancy as well as more examples of adaptive reuse. Both contributed to the 60 basis point (BPS) drop in the availability rate since last quarter to 22.0%.

Leasing activity was about average for a first quarter, up 9.2% from last year, though it was still 25.0% lower than the trailing five-year quarterly average. On the supply side, newly available space was extremely limited, with just one block greater than 20,000 SF coming to the market, as Millennium Management offered their 23,342 SF space at 44 S Broadway in White Plains.

While the market improved on the whole, the lack of leasing activity was notable in the White Plains CBD, which registered just 42,730 SF of leasing, less than half of last year's first quarter total. Owners may still be feeling confident there, after significant improvement in 2017 and 2018 that has resulted in the asking lease rate climbing 21.6% to \$37.10/SF since 2017. However, occupiers might be finally pushing back, as the White Plains CBD now holds a 32.0% premium over the second most expensive submarket, East I-287, which is just a short drive from the CBD.

The conversion to medical at 104 Corporate Park Drive was the latest example of adaptive reuse, as this 118,000 SF former office will be fully leased to Montefiore Medical's pediatric center by Simone Development. Even after this latest example, there is still roughly 2.7 million SF of mostly vacant office inventory in the pipeline awaiting approval to be converted.

Absorption

Westchester's net absorption reached a positive 209,947 SF in the first quarter, which was a significant 253,022 SF improvement year-over-year. The gains in occupancy were broad based, with each submarket contributing, albeit slightly, to the positive net absorption – the first time on record that every submarket has had positive absorption. Additionally, both class A and B properties achieved positive net absorption at 134,502 SF and 75,445 SF, respectively.

Availability

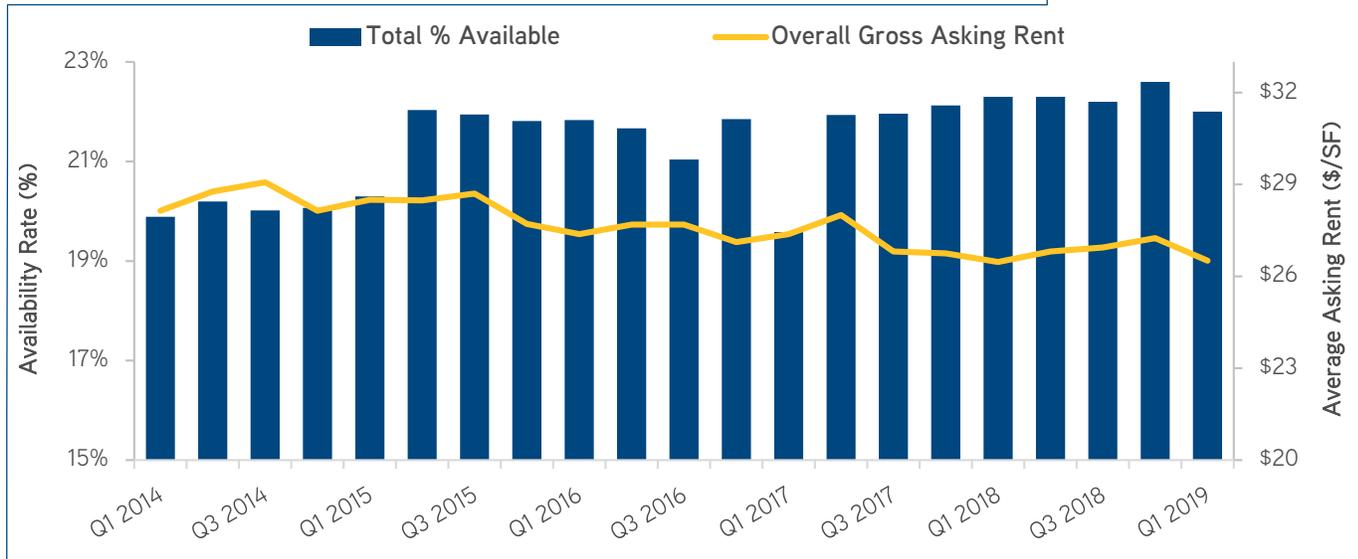
After increasing every year since 2012, the availability rate has started 2019 off on the right foot to reverse this trend, falling 60 BPS from the end of last year to 22.0%. At the submarket level, the Southern Westchester submarket continues to have the lowest availability rate in the County, after falling another 60 BPS from last quarter to 10.5%, and has now extended its streak of having the lowest rate in the County to over five years. While each of the submarkets posted a moderate drop in their availability rates, the County still suffers from the outsized impact of a few large spaces. Currently, there are just 12 properties that have 100,000 SF or greater available, which hold 48.7% of the County's total available space.

Rental Rates

The average asking lease rate for both class A & B properties fell by 2.7% since last quarter to \$26.51/SF, with weakness coming from every submarket, except for the White Plains CBD, which saw its rate rise 2.1% to \$37.10/SF – now the highest rate on record. The asking lease rate for Class A properties gained 1.1% to \$29.95/SF since last quarter, whereas the Class B rate fell 1.3% to \$24.40/SF.

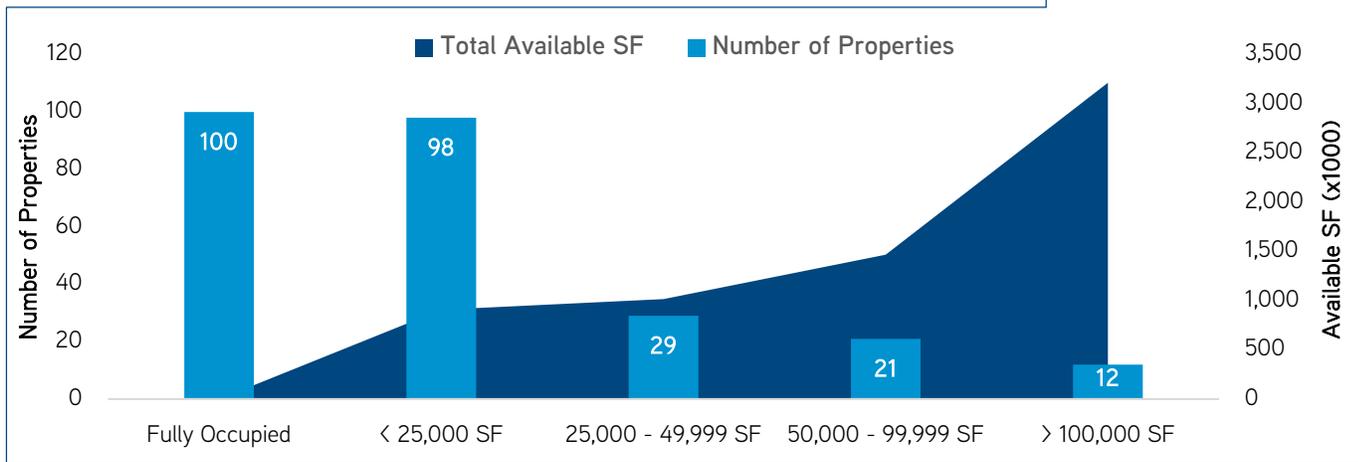
¹ Colliers International Research includes office space within the availability rate only if it is actively being marketed with a possession date for tenant build-out within 12 months.

Westchester County | Overall Average Asking Rent and Availability Rate



Source: Colliers International Research, Q1 2019

Westchester County | Available Blocks of Space



Source: Colliers International Research, Q1 2019

Leasing Activity

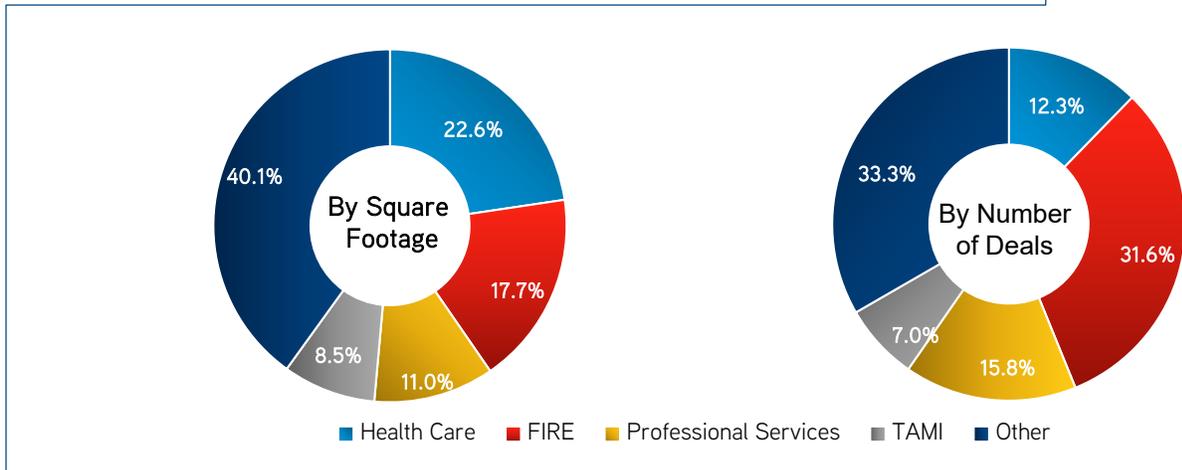
The first quarter ended with 378,047 SF in total volume, 9.2% higher than last year, though 46.2% lower than Q1 2017. The largest deal, accounting for 16.8% of that volume was a renewal signed by OrthoNet, a subsidiary of UnitedHealth Group, for 63,575 SF at 1311 Mamaroneck Avenue in White Plains. The second largest was signed by POP Displays, which took 25,000 SF at 1 International Drive in Rye Brook, after splitting its operations from a 435,000 SF industrial property in Yonkers; the office portion moved to Rye Brook while the manufacturing piece relocated to the Georgia. This illustrates how occupiers are impacted by the high cost of business in the area, but also how important the area's highly educated workforce is to occupiers.

At the submarket level, close to half of the County's leasing activity was signed in the East I-287 submarket, led by the aforementioned OrthoNet and POP Display's leases, as well as Wells Fargo's 21,294 SF new leases at 2500 Westchester Avenue in Purchase. Again, the second most active submarket was also of note, as it occurred in the Northern Westchester submarket, which recently has been one of the quieter submarkets. This quarter, leasing was led by the New York State Government, which agreed to lease approximately 16,000 SF at 117 Stevens Avenue in Valhalla.

The health care industry, quickly becoming one of the most important economic drivers in the County, was responsible for 22.6% of all activity, primarily due to OrthoNet's lease, as well as Montefiore's 6,000 SF expansion at 100 Corporate Boulevard in Yonkers. The financial, insurance, and real estate (FIRE) sector followed with 17.7% of the County's activity, helped in part by Freepoint Commodities' 12,300 SF lease at 100 Corporate Boulevard in Yonkers.

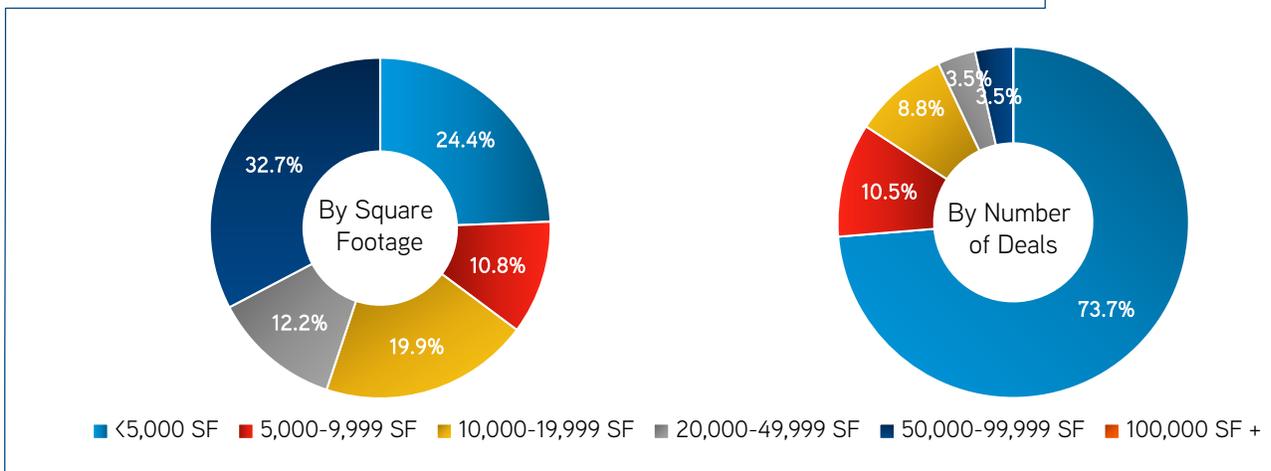
There are a handful of larger occupiers rumored to be in the early stages of looking for space in the County, though the next few quarters will likely be dominated by smaller leases.

Westchester County | Leasing Activity by Industry



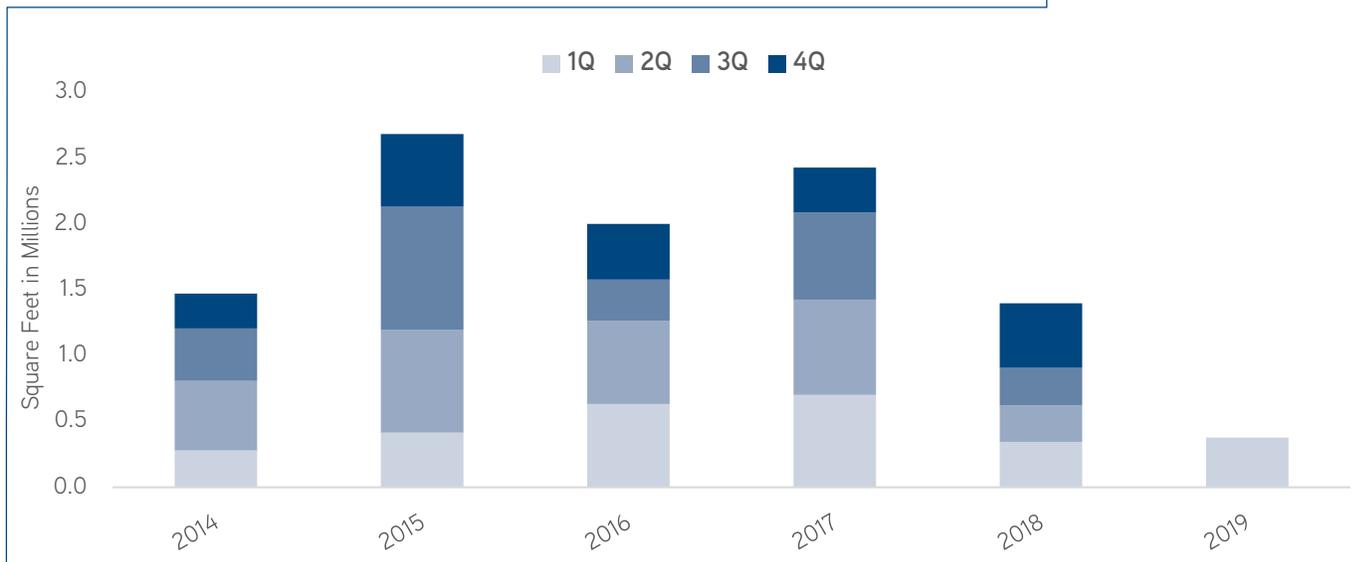
Source: Colliers International Research, Q1 2019

Westchester County | Leasing Activity by Size



Source: Colliers International Research, Q1 2019

Westchester County | Overall Leasing Activity

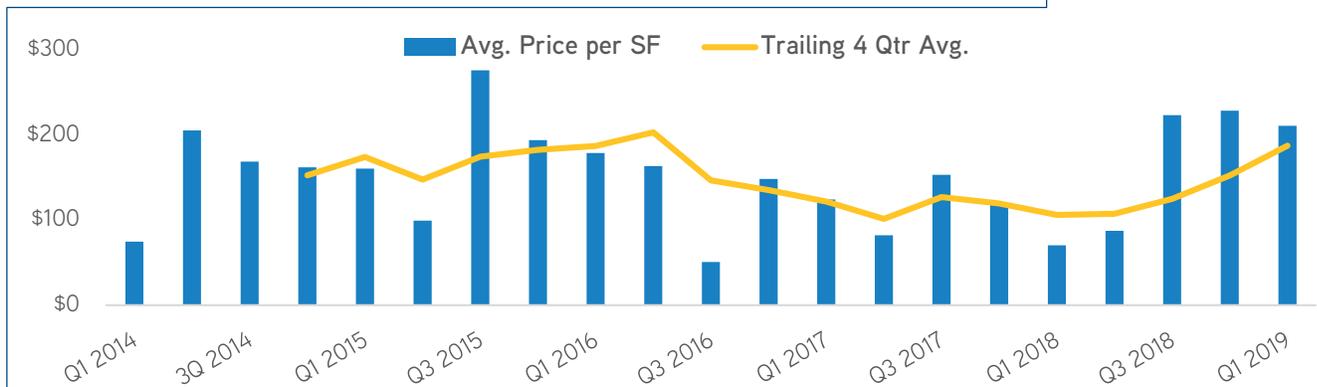


Source: Colliers International Research, Q1 2019

Capital Markets

The investment sales market may not have had a huge number of transactions, but the ones that did close were significant. There were a total of three trades, resulting in \$535 million of volume in the first quarter, with an average price/SF of \$210.68. The largest of which was the 56-building office & flex portfolio, which sold for \$487.5 million, making it the largest commercial transaction ever in Westchester County. The seller, Mack-Cali, has now completed its strategy of exiting the Northern suburban markets. The Robert Martin Company was the buyer, as well as the original developer and with this transaction has once again become one of the largest owners of commercial properties in the County. At the national level, the Federal Reserve seems to be more comfortable with the inflation rate, which leads many to believe there will be at most one more interest rate increase in 2019. This stability at the national level may mean investors will have more time to evaluate their specific deals, which might slow the pace of investment activity in the near term, while the newly implemented Opportunity Zone law may tempt certain investors to move more quickly.

Westchester County | Office Pricing

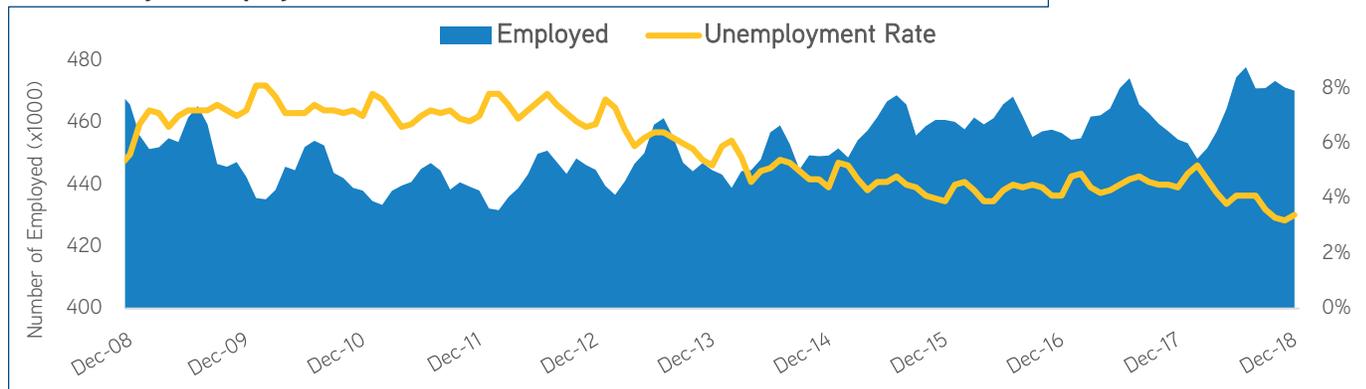


Source: Colliers International, Q1 2019

Employment

Westchester County's latest unemployment rate in March was 3.6%, 10 BPS points higher than last quarter and 60 BPS lower than the prior year. When an unemployment rate becomes this low, the worry shifts somewhat from the number of unemployed, to the growth of the labor force, which could potentially act as a barrier to any future gains, as there is a limited pool from which to hire. However, to better gauge future demand for office space, it helps to focus on office using employment, defined as those employed by the information, financial, professional and other industries, which has been growing, albeit slowly, since 2010. Office-using employment has plateaued in recent years after steadily recovering from the low it reached in 2010, but it is still 3.7% lower than the peak reached in 2007. While office-using employment has flattened as of late, health care employment continues its impressive trajectory, climbing 16.8% since the beginning of 2007.

Westchester County | Employment



Source: New York State Dept. of Labor, January 2019.

Conclusion

The County's office market had an impressive first quarter, with the help from some of the usual suspects. The growing health care industry, and the on-going adaptive reuse of older office product continued to improve the overall statistics. Occupiers are still attracted to the area's highly educated workforce, though the growth of which is starting to be a concern. Additionally, as adaptive reuse continues to transform the office market, it may be reaching the tipping point where occupiers are forced to look elsewhere due to limited options. Existing landlords should monitor these market conditions and plan for investments in upgrading their existing facilities. Those with the right amenities, up-to-date infrastructure, in solid locations will likely be rewarded from limited competition in the coming years.

Westchester County Top Q1 2019 New Leases

Address	City	Submarket	SF Leased	Tenant	Sector
1 International Dr.	Rye Brook	East I-287	25,000	POP Displays	TAMI
2500 Westchester Ave.	Purchase	East I-287	21,294	Wells Fargo Advisors	FIRE
50 Main St.	White Plains	White Plains CBD	17,812	Goldberg Segalla	Professional Services
117 Stevens Ave.	Valhalla	Northern WCH	16,000	New York State	Government
117 Stevens Ave.	Valhalla	Utopus Insights	15,000	Utopus Insights	Energy

Westchester County Top Q1 2019 Renewals

Address	City	Submarket	SF Leased	Tenant	Sector
1311 Mamaroneck Ave.	White Plains	White Plains CBD	63,575	UnitedHealth Group	Health Care
4 Manhattanville Rd.	Purchase	East I-287	9,042	Littleton Joyce Ughetta Park & Kelly LLP	Professional Services
10 Bank St.	White Plains	White Plains CBD	4,169	Edelman Financial Services	FIRE
670 White Plains Rd.	Scarsdale	Southern WCH	4,089	Central Leasing	FIRE
800 Westchester Ave.	Rye Brook	East I-287	2,319	Axon Communications	TAMI

Westchester County Q1 2019 Lease Quick Facts

Total Count	Total New	Total Renewals	Total Volume	Avg. Deal Size
57	44	13	378,047	6,632

ECONOMIC INDICATORS

GDP
Gross Domestic Product

3.2% (Q1 2019)



Increase from Q4 2018

CCI
Consumer Confidence Index

100.31 (Feb. 2019)



Decrease from Dec 2018

WESTCHESTER COUNTY

Unemployment Rate

3.6% (Mar. 2019)



Increase from Dec. 2018

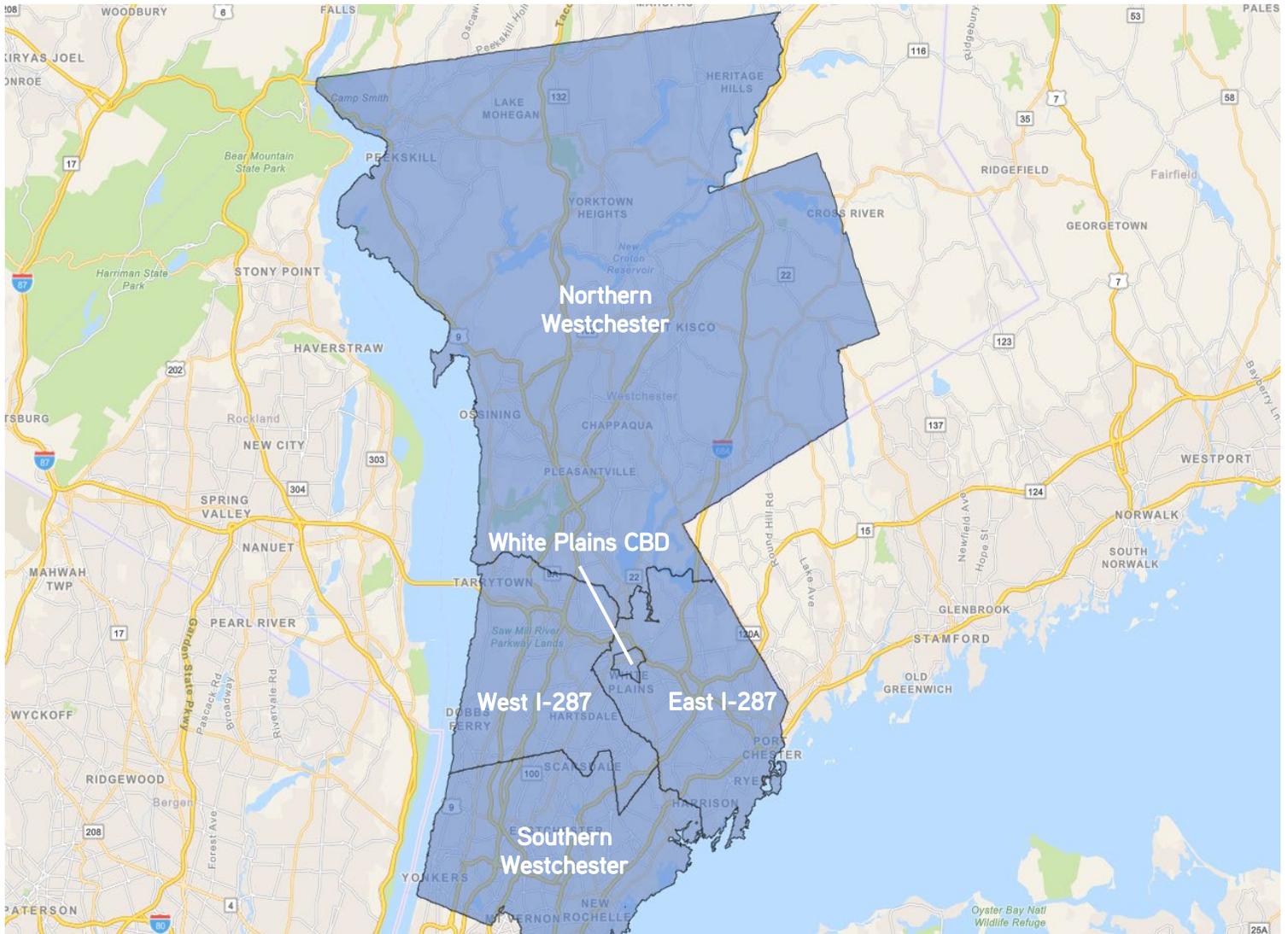
Source: U.S. Department of Commerce, The Conference Board, Connecticut Department of Labor

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 	10,155,550	17.11%	174,076	53,578	\$28.07/fs	\$29.97/fs	\$25.37/fs
West I-287 	3,582,667	25.4%	21,952	45,113	\$24.23/fs	\$25.17/fs	\$23.91/fs
Southern WCH 	3,343,055	10.5%	43,639	21,297	\$25.62/fs	\$29.89/fs	\$24.18/fs
Northern WCH 	6,974,915	35.6%	95,650	85,110	\$24.24/fs	\$24.50/fs	\$24.14/fs
White Plains CBD 	5,944,863	18.8%	42,730	4,849	\$37.10/fs	\$40.87/fs	\$26.83
Westchester County 	30,001,050	22.0%	378,047	209,947	\$26.51/fs	\$29.95/fs	\$24.40/fs

*Rents are quoted on a full service (fs) gross basis

Westchester County Submarket Map



Definitions

Inventory: The statistical set consists of all office properties, considered to be of Class A or B, of more than 20,000 SF, including owner-occupied properties. The data set excludes properties that are for education, wholly medical, and government use. While Colliers attempts to provide the most accurate data at the end of every quarter, revisions are made annually account for discrepancies in past reporting.

Class A Building: Most prestigious buildings competing for premier office users with rents usually above average for the area. Buildings have high quality standard finishes, in-demand amenities, state-of-the-art systems, exceptional accessibility, and a definitive market presence, relative to the surrounding area.

Class B Building: Buildings competing for a wide range of users with average rents. Buildings finishes are fair to good for the area, and building systems are considered adequate. These properties typically do not compete with Class A buildings at the same price.

Leasing Activity: Total sum of all leased SF. Includes new leases, renewals, expansions and contractions.

Net Absorption: The net change in occupied space between the current period and previous, calculated by summing all of the positive changes in occupancy and subtracting all negative changes in occupancy.

SF: Square Feet

Availability Rate: Percentage rate of the total amount of space being marketed for lease, divided by the total amount of existing inventory.

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

About Colliers International

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