



HOULIHAN LAWRENCE  
COMMERCIAL GROUP



# Commercial Market Report

WESTCHESTER COUNTY | FIRST QUARTER 2019

# Executive Summary

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## FIRST QUARTER 2019

### US Economic Activity

The first quarter of 2019 was marked by the seesaw effect of mixed optimism and fear among investors, influencing real estate investment as a whole. Macroeconomic and geopolitical factors driving mixed activity included trade disputes and regulatory changes.

The confidence seesaw played out as follows: Earlier in the quarter, fears of an impending recession were put to rest by robust employment activity. However, slow-down fears resurfaced toward the end of the quarter as employment statistics faltered and 10-Year Treasury yields declined, signifying investor preference for safety. The March employment report reignited hopes that, for 2019, economic activity would be resilient.

### Income Producing Commercial Real Estate Continues to Shine

In the current economic environment, the virtues of existing income-producing commercial real estate continue to shine, while the time-intensive nature of development is less attractive to investors. This is due to the perception of a shorter runway to the end of the economic expansion. Thus, future income is being more heavily discounted in underwriting investment returns.

New trends are emerging as corporations and consumers try to adapt to a rapidly evolving business environment. Changing consumer behavior is redefining the types of companies and business approaches that are most likely to succeed. Preference for experiential activities and the desire to improve sustainability of resources are among the most dominant themes.

Many of these trends are deeply altering businesses within the Commercial real estate tenants base, and, as a consequence, the real estate they occupy. Landlords are adapting to preserve the income-producing potential of their assets and ultimately, their intrinsic value in the marketplace.

### Westchester Multifamily Remains A Significant Bright Spot

Despite the uncertain environment, Westchester multifamily apartment fundamentals are solid. The attractiveness of this asset class in Westchester –to tenants and to investors- appears unquestionable. Over the last two quarters, approximately 700 new units have been delivered in the area South of I-287, yet, occupancy and pricing have strengthened according to Costar data.

Investors continue to prefer multifamily investments due to their resilience in varying economic environments, as well diversity of sizes and price points. Households continue to favor this housing format due to the flexibility and affordability it offers.

In addition, newly built multifamily buildings located in close proximity to Metro North commuter transportation are offering both the amenities and a commute that competes strongly with developments in the popular boroughs of New York City.

### Retail Battles Forward

Retail properties in Westchester experienced strong net leasing, consistent with the activity of the last quarter of 2018. Leasing was led by direct re-tenanting of space with sublet activity diminishing. Retail shops gave back rental rate gains achieved the prior year, but landlords successfully managed to maintain and improve occupancy by accepting discounted rents.

Performance of grocery anchored shopping centers continues to exceed that of regional malls or big box centers, where tenant turnover is meaningfully higher. Street retail faring best is in the direct path of commuters with convenient parking. New tenants continue to be hesitant about the overall business environment and are demanding more flexible terms and rents. In Westchester we continue to see wellness trends driving retail leasing with uses ranging from niche fitness businesses to medical practitioners.

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## FIRST QUARTER 2019

### Office Space - Bigger Deals Flourish

Westchester Office properties also had a strong leasing quarter, almost double the net leasing achieved in the fourth quarter of 2018. There were fewer deals but larger in size. Like in the retail space, landlords are prioritizing occupancy over rents and accepting the realities of a more challenging business environment. Direct rents declined more than sublet space, underscoring owners' desire and ability to be flexible.

Overall, it is our experience that tenants perceive the office market to be oversupplied for small blocks of space. These smaller tenants have become very conservative in bidding for rental space as they want to avoid loading their businesses with fixed costs that could hurt their viability in a downturn.

### Industrial Assets Serving E-Commerce Continue to Expand

Industrial assets have now broken historical trends and appear to be in a new era. Nationally and regionally, digital sales activity accounts for a large percentage of the growth in demand for industrial real estate. According to some market observers, the share of industrial real estate dedicated to fulfilling e-commerce is approaching 50% in some regions of the country.

In Westchester, unprecedented industrial strength continues, and lease prices have maintained their ascent. Net absorption weakened slightly during the first quarter after several months of strong leasing gains. This is likely to be temporary. Anecdotal information and on-the-ground observations lead us to conclude that fundamental strength is unabated.

### Investment Sales Leveling Off

Lastly, investment sale dollars tell a story of a rebounding market. However, examining the largest deals during the first quarter of 2019 indicate that one single deal, the acquisition of The Empire City Casino in Yonkers (810 Yonkers Avenue) by MGM Resorts International for \$850 Million, hides the underlying weakness that the transaction market is experiencing. Without this deal, investment activity declined to levels similar to the third quarter of 2018 -- less than \$200 Million -- and less than half of the activity of the fourth quarter of 2018.

In this rapidly changing commercial real estate market, up-to-date local and regional market knowledge and transaction expertise are critical for success.

Houlihan Lawrence Commercial has the experience, market intelligence and professional access that is necessary to help investors and owners to evaluate market conditions, fair pricing, and the very best approach to marketing their real estate. We would be delighted to provide our professional expertise as you consider both your present needs and the future of your real estate assets.

## THIS REPORT IS PREPARED BY

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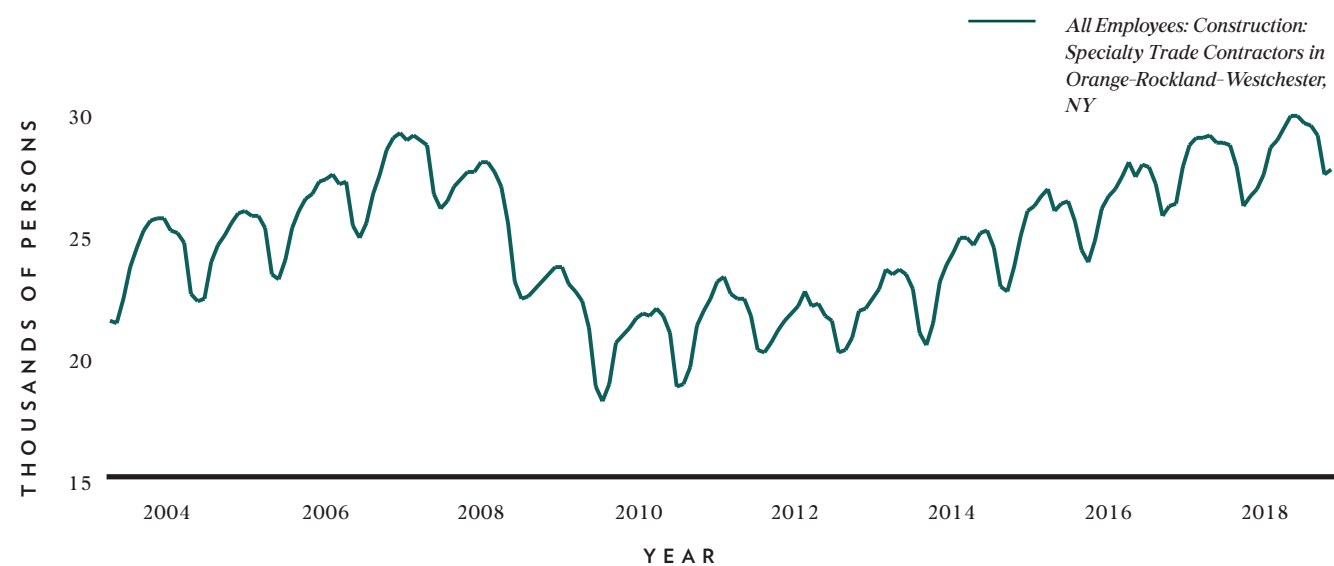
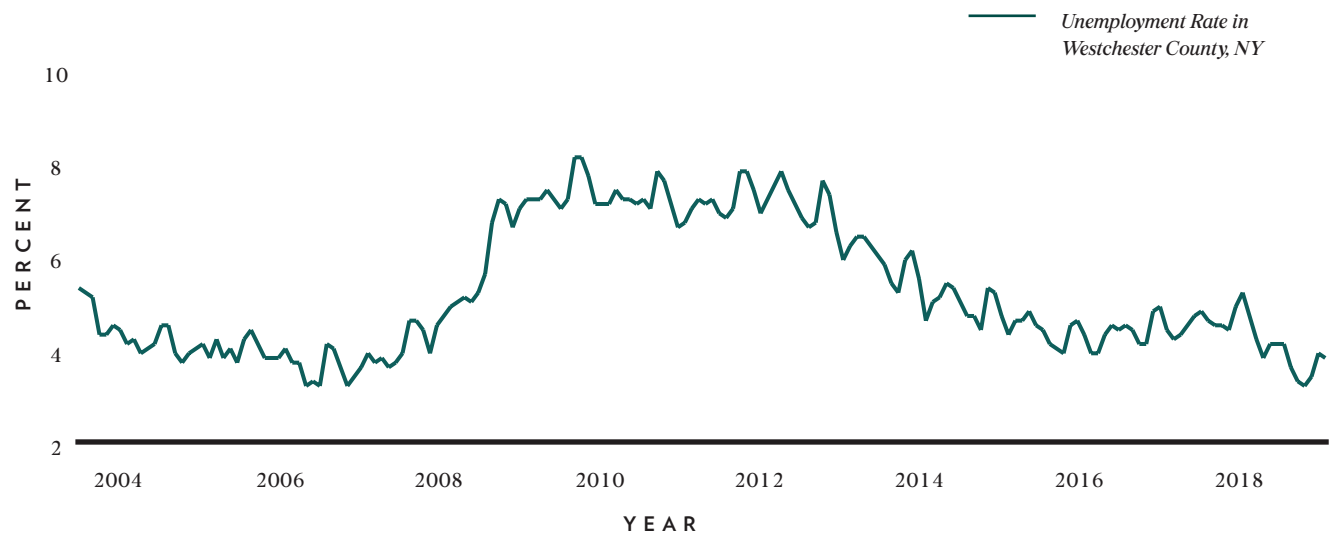
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# Westchester's Unemployment at Lowest Levels in Recent History

## WESTCHESTER COUNTY EMPLOYMENT STATISTICS NOT SEASONALLY ADJUSTED

Westchester's employment statistics reflect the seasonal impact of winter months and some residual effect from the Government shutdown earlier in the year. Construction employment has been a key contributor of labor strength in Westchester. However, some headwinds, such as steep rises in construction costs, natural gas moratorium and higher interest rates will probably cap construction activity and related employment gains in the immediate future.



Sources: COSTAR, Trepp, U.S. Bureau of Labor Statistics, Unemployment Westchester County (Not seasonally adjusted), NY. Real Estate Employees Data is Seasonally Adjusted. All data retrieved from FRED, Federal Reserve Bank of St. Louis; April 2019. HLCOMMERCIALGROUP.COM

# Multifamily Assets

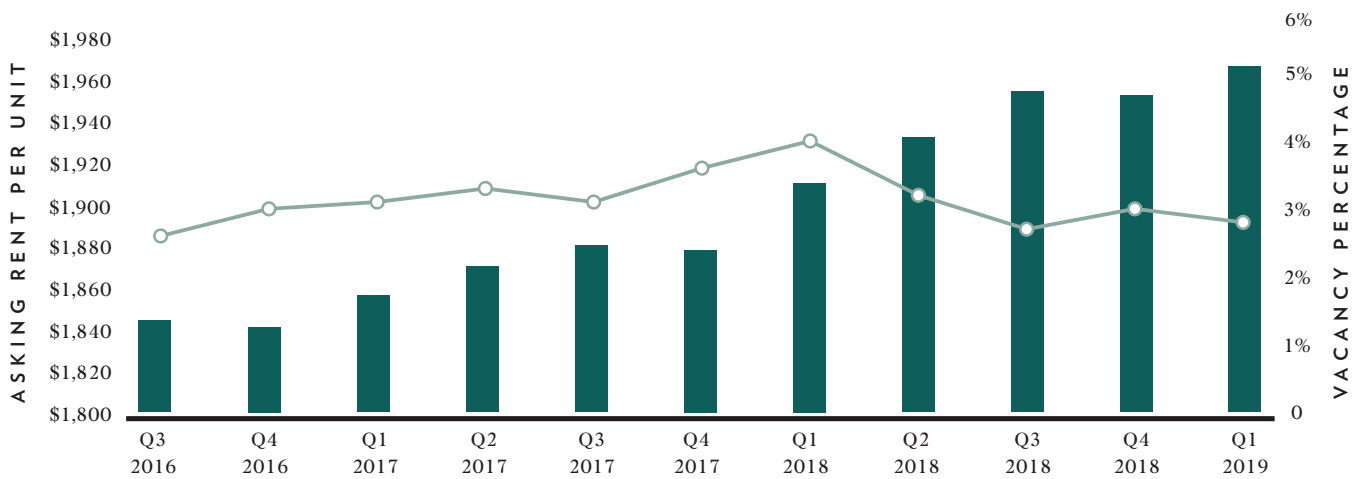
## Rent Growth Re-accelerates

SOUTH OF I-287

Multifamily apartments continue to shine with rents growing again after a couple of flat quarters. Vacancy is hovering around 3% which denotes a very strong market. Market absorption is now more modest after a blazing second half of 2018 but under construction unit pipeline continues to grow. Headwinds to new construction planning could constrain rapid pipeline growth in the near term.

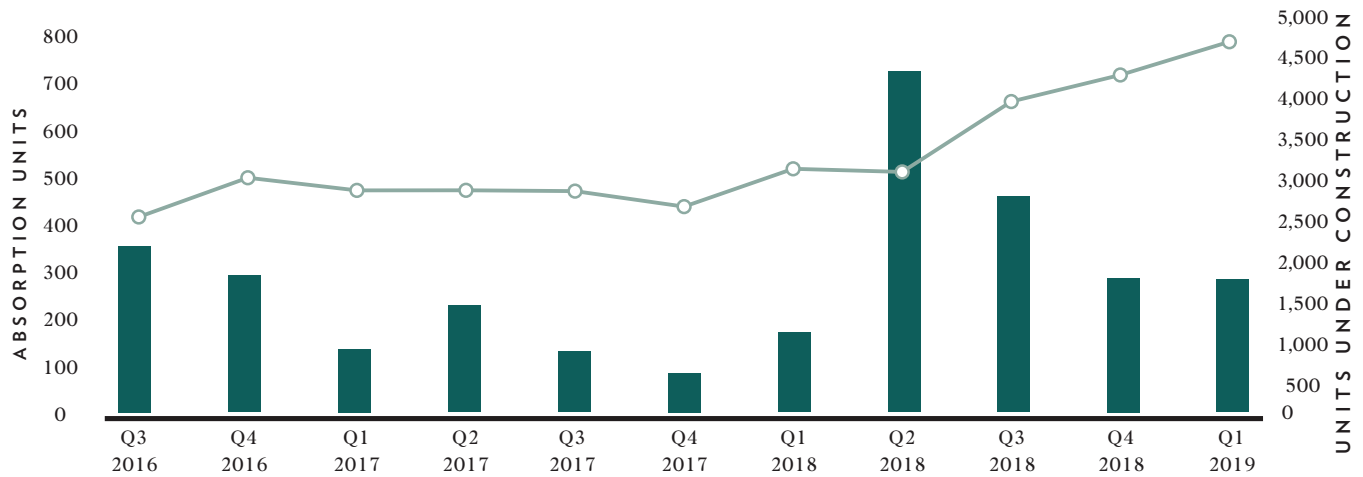
EFFECTIVE RENT DEMONSTRATES A RESILIENT TREND

■ Effective Rent Per Unit ○ Vacancy Percentage



DEMAND MODERATING BUT PIPELINE STILL GROWING

■ Absorption Units ○ Units Under Construction



Sources: COSTAR, Trepp, US Bureau of Labor Statistics, Data Reflects Fundamentals for Westchester County Area South of I-287. Price Index for Westchester retrieved from FRED, Federal Reserve Bank of St. Louis; April 2019  
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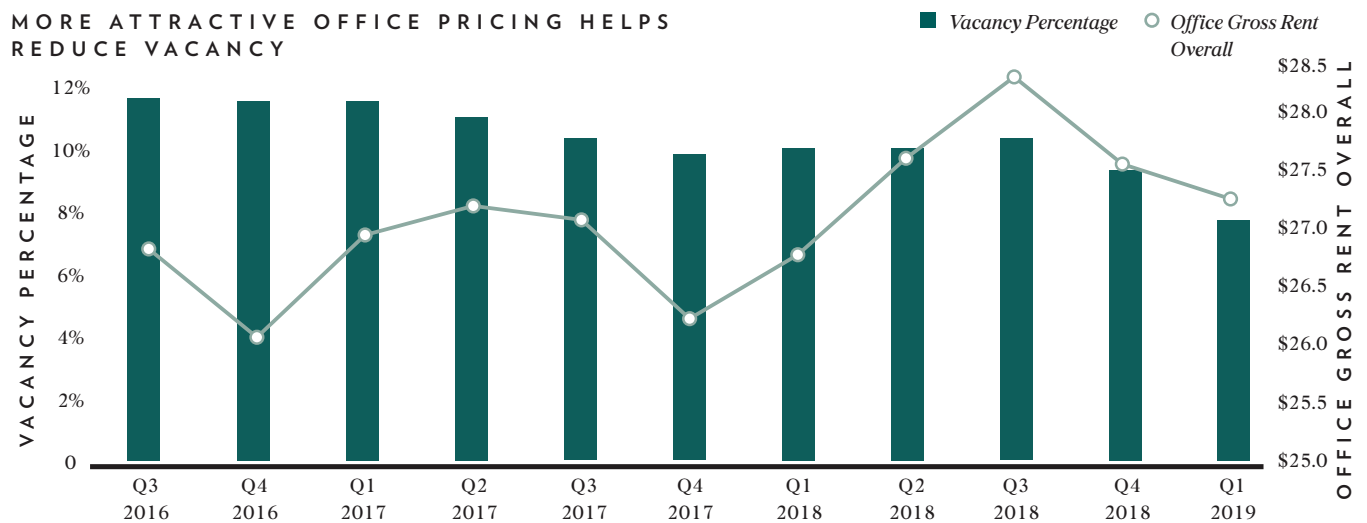
# Westchester Office and Retail – Overall Improvement in Occupancy Continues

## SOUTH OF I-287

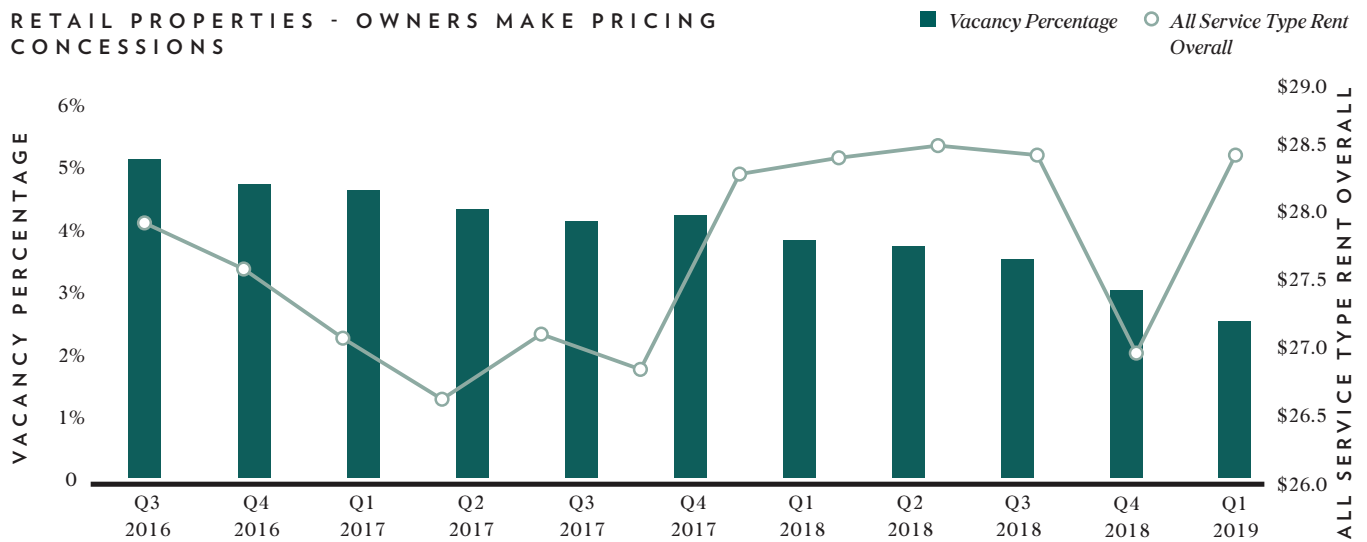
Office absorption in Q1 2019 was brisk following the positive momentum established in the prior quarter. Landlords continue to demonstrate pricing flexibility and adjust prices to capture demand.

Similar to the office market, retail space absorption was strong in Q1 2019. Rents however, have experienced a sharp correction which has been a positive factor in maintaining leasing activity and tenant interest. In a challenging retail environment, new tenants are seeking value and visibility in the space they choose to lease.

### MORE ATTRACTIVE OFFICE PRICING HELPS REDUCE VACANCY



### RETAIL PROPERTIES - OWNERS MAKE PRICING CONCESSIONS



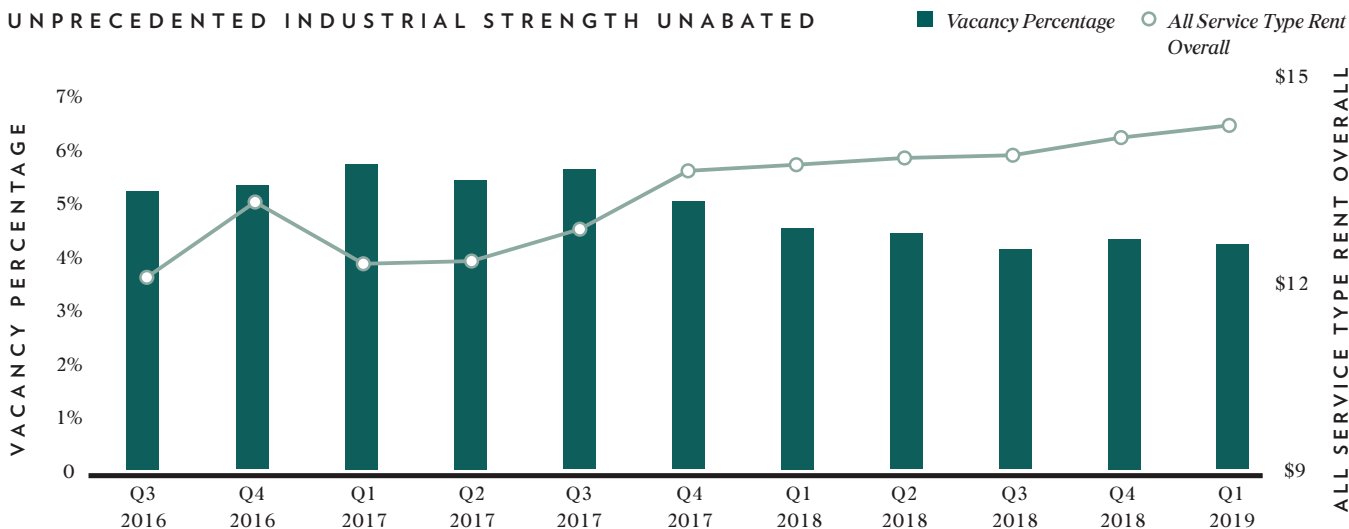
Sources: COSTAR, Trepp, US Bureau of Labor Statistics, Data Reflects Fundamentals for Westchester County Area South of I-287. Price Index for Westchester retrieved from FRED, Federal Reserve Bank of St. Louis; April 2019  
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# Industrial/Flex Properties – Demand Momentum Continues

## SOUTH OF I-287

Industrial properties remain in the sweet spot of investors, retailers, logistic networks and traditional users. Rents are hitting multi-year highs and firm demand remains. Demand growth for industrial space is coming primarily from retail distribution related uses. New deliveries will remain limited as it is difficult to build new state of the art facilities near densely populated areas.

### UNPRECEDENTED INDUSTRIAL STRENGTH UNABATED



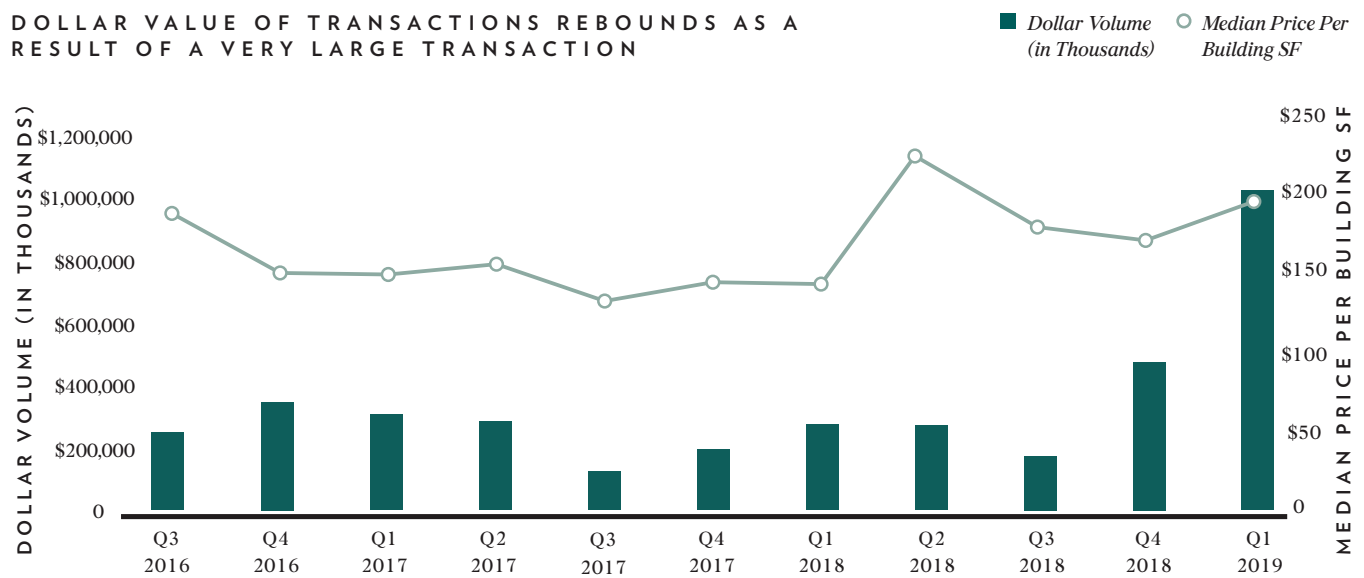
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# Investment Activity

## SOUTH OF I-287

In Q1 2019, dollar value of investment transactions reached the highest level in three years. Median transaction price was also higher. However, data was skewed by the acquisition of the Empire City Casino in Yonkers (810 Yonkers Ave.) by MGM Resorts International for \$850 million. Excluding this transaction, investment transactions would have been similar to the low level of Q3 2018. Median price was also affected by the Empire Casino sale.

**DOLLAR VALUE OF TRANSACTIONS REBOUNDS AS A RESULT OF A VERY LARGE TRANSACTION**



Sources: COSTAR, Trepp, US Bureau of Labor Statistics, Data Reflects Fundamentals for Westchester County Area South of I-287. Price Index for Westchester retrieved from FRED, Federal Reserve Bank of St. Louis; April 2019  
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