



What we can learn from Westchester's evolving office market - by Chris O'Callaghan

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Chris O'Callaghan
RM Friedland

Famed American Bandstand host Dick Clark once clarified his multi-decade influence over the music industry. “I don’t set trends,” he offered, “I just find out what they are and exploit them.” Much the same can be said of Westchester County, where the area’s changing real estate landscape is more a reflection of emerging national and regional demographic, psychographic and economic trends rather than unique events that are reshaping the local marketplace. Obsolete office buildings have been repositioned into multifamily, medical and quality retail. For all its prominence, COVID-19 is only accelerating – not igniting – dramatic changes in the way we all work, live and play, and these transformative changes will continue impacting the county and its office space post pandemic.

Building Amenities a Key to Success: Westchester County’s office market remains 15% smaller than 30 years ago, shrinking from 32 million s/f of office space down to 27 million. Companies continue taking smaller office spaces as more employees work remotely. Businesses are expanding “within the cloud” instead of on the ground, resulting in shrinking lease requirements. However, when choosing an office space, there is still flight to quality, a need for greater flexibility and desire for a wider array of amenities. Companies want their employees to enjoy coming to the office. Building amenities are critical even in B buildings. In an environment where office space is highly commoditized landlords are forced to make investments in their buildings to compete.

The theme of making an investment in one’s corporate environment is strongly evidenced by one of the county’s largest tenants, Morgan Stanley. In 2002, Morgan Stanley acquired Texaco’s former global headquarters in Purchase, N.Y. for \$42 million (roughly \$56 per s/f). The massive 750,000 s/f building sat upon a sprawling 100 bucolic acres of prime Westchester County real estate. Without Morgan Stanley’s investment, single-and multifamily dwellings might have replaced a powerful financial engine generating much-needed revenue, high-paying jobs, and economic stability.

The price tag for replacing the same building today would exceed \$280 million (more than five times the purchase price), which is exactly why for over 30 years no commercial office building has been sold for even close to replacement value in Westchester County, unless it was bolstered by an above-market lease by a credit-worthy tenant.

Targeted Incentives Add Vitality to Economy: Flash-forward to late 2020. With targeted incentives provided by Westchester County’s Industrial Development Agency, Morgan Stanley is pouring \$200 million into the same property for a major renovation of its corporate office complex. The short-term construction project will lead to a slew of long-term benefits including stabilizing the community tax base and creating jobs at a time of economic uncertainty infected by COVID-19, as well as meet the changing needs of the company’s sizeable workforce and enticing those soon to be employed by the firm. This investment infusion equally sends a strong signal to other companies about the vitality of Westchester County as an epicenter for commerce and industry and the importance of the office environment. With rapidly changing economic conditions weighing heavily on other Westchester-based corporate titans such as PepsiCo, Mastercard, SwissRe, and Regeneron, only time will tell if Morgan Stanley’s bold decision is a leading indicator of the actions others will take in

the near future. While the county's real estate market has still not fully recovered from the departure of several major corporate employers over the past several decades (such as Texaco, among others), there remains hope that from an old chrysalis will emerge a beautiful butterfly. For example, IBM maintains its world headquarters in Armonk, and in 2018, sold their 1.2 million s/f, I.M. Pei-designed Somers campus to a for-profit entity interested in converting the property to a private high school emphasizing science, technology, engineering, and math (STEM) learning; thereby, providing a future pipeline of highly educated graduates for institutions of higher learning and businesses throughout the region.

Employers and employees alike are advocating for substantial changes because of the blurring lines between work and home life. Access to nearby healthcare is as much a necessity for the workplace as it is a must for the renter or homeowner, which has in turn whetted the appetite of major medical care providers – such as Northwell, New York Presbyterian and Montefiore – who are blazing trails to the northern suburbs outside of New York City, and as a bonus, finding themselves occupying lower-priced properties.

Turning Empty Offices into Healthcare Havens: The Hospital for Special Surgery and Sloan Kettering have built significant facilities in the County, as well as medical groups Westmed and CareMount, who have collectively invested hundreds-of-millions of dollars in once obsolete office buildings by converting them into healthcare havens overlaying millions of s/f of space with state-of-the-art diagnostic and surgical equipment operated by thousands of highly trained employees – resulting in the generation of much-needed tax revenues and job opportunities for all ends of the economic spectrum.

Much in the way healthcare providers redesign their properties to fit new workflow methodologies and customer requirements, other employers in the County are willing to make the additional investments necessary to adjust to a “new normal.”

The collective impact from these changes is also driving the need for high-quality retail amenities. Another obsolete office building was repurposed into Westchester's first Wegmans supermarket. The supermarket's addition was met with a mixture of pageantry and the expectation of more to come to service the multifamily housing being constructed throughout the four corners of Westchester County.

Historically, new residents move in and business follows. With over 5,000 units of multifamily development currently approved and under construction (or scheduled to begin) with more to follow, the demand curve will improve and bring along new office, retail, recreational and hospitality spaces. Bold real estate developers recognize the considerable benefits of this marketplace outweigh a somewhat daunting list of challenges and will continue purchasing (and repositioning) formerly distressed office assets to meet the demanding needs of today's agile corporate and residential users.

Big Demand for Last-Mile Distribution Facilities: The more demand we see for multifamily housing, the faster the growth of e-commerce – a seismic-shifting trend unto itself. The digitization of the

broader economy is a trend that cannot be ignored. It has led to a voracious appetite for establishing last-mile distribution facilities to service all these new customers and is driving investors to consider repositioning office buildings and parks to industrial properties filled with boxes and products rather than cubicles and people. The prospect of this repositioning is shocking to many as no one thought industrial rents would ever support such a conversion from office to industrial. It is remarkable that it is all just to keep up with the maddening pace of doorstep deliveries.

Yet, the allure of Westchester County is not all about how fast a click will lead to a package delivery. We are also blessed by having an expansive 18,000 acres of beautiful parks, trails, and pathways; amazing cultural and non-profit institutions; world-class colleges and universities fed by superior public and private schools; a diversity of housing options; and endless intellectual capital and entrepreneurial activity. All of this acts as a magnet that draws more and more capital investment year after year.

New, dynamic businesses are moving here from all over representing exciting, high-growth industries such as life sciences, advanced manufacturing and financial technologies. From across the country and around the world, the best and brightest young professionals want to live, work, and play here, which translates into raising families and laying down roots in Westchester County. We have a far-reaching interconnected system of public agencies, private sector partners and non-profit organizations to support this growth, and an outstanding network of leaders at the helm of all these entities to advise and guide the next generation of tenants, residents, and workforce.

Westchester County may not be a trendsetter, but we remain better than most at reading the charts, listening to others, and making the strategic investments and fundamental changes that the public wants and the times demand. The repositioning of office buildings in Westchester County is ultimately not as much a commentary on the health of its office market, but rather on what the local population demands. More immediate access to healthcare, more multifamily housing, more high-quality retail amenities, better e-commerce infrastructure and improved brick and mortar work environments are all among these demands and tell the story of the County's ever-changing real estate landscape.

Chris O'Callaghan is managing director at RM Friedland, Westchester, NY.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540