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Houlihan Lawrence releases First Quarter Commercial Market Report for Westchester County

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Rye Brook, NY Prospects for an economic recovery spurred by the availability of COVID-19 vaccinations, is giving the Westchester County commercial real estate market some hopeful signs of improvement led by a strong demand for industrial space, continued resiliency of the multifamily sector and signs of a stabilization in retail vacancy rates, according to the Houlihan Lawrence First Quarter Commercial Market Report for Westchester County. Meanwhile, an imbalance of supply and demand for Westchester offices has resulted in higher vacancy rates and investors are still sitting on the sidelines.

Here are the highlights from the report:

Supply-Demand Imbalance Continues to Affect Westchester Offices

The imbalance of supply and demand for Westchester offices has resulted in higher vacancy rates. Vacancy has increased 3% since the start of the pandemic. Pricing weakened modestly during the recent quarter. Sublet activity also weakened from the prior quarter. However, on a positive note, direct leasing activity rebounded modestly from the prior two quarters indicating that tenants are beginning to establish longer term space positions now that there is some visibility as to controlling the pandemic.

In the short term, office market fundamentals in New York City and the surrounding suburbs will be heavily influenced by a full reopening of public schools–allowing parents to return to a more normal routine. The policies that major financial services employers establish incorporating varying degrees remote work flexibility will also weigh heavily in the post pandemic work landscape. As an example, JP Morgan has suggested that with the combination of new office layouts and remote capabilities, they may only need 60 desks for every 100 employees.

Remarkable Stability of Westchester Multifamily Continues

Westchester multifamily assets continue to demonstrate resilience. Asking rent per s/f has been stable at cyclical highs, and effective rent rate per unit increased modestly during the quarter. New deliveries amounted to approximately 0.5% of inventory and fundamentals are relatively steady. A modest increase in vacancy can be attributed to new deliveries to the market. Additionally, the first quarter tends to be seasonally weaker for new apartment take-up. Exodus from Manhattan has continued and has been a contributor to the Westchester apartment markets' fundamental strength.

The second and third quarters of 2021 will be critical in confirming the persistence of household flows into Westchester. With apartment rental prices in New York City down around 15% on average, some households planning a move may reconsider their decision.

Westchester Retail Stabilizes During the Quarter

Westchester's retail supply-demand imbalance became less pronounced during the first quarter, and the vacancy rate increased only a modest 0.1% according to Costar data. In general, Southern Westchester retail real estate has maintained a better occupancy ratio that in other nearby geographies. Retail rents also remained stable during the quarter. The presence of an affluent consumer is a strong driver for new retailers and service companies interested in expanding premium brands. Underscoring retailer interest in the area is the construction on Target's first location in Yonkers at the Cross County Shopping Center. Target will occupy a former Macy's space at the location.

Westchester Industrial Segment Continues to Be in High Demand

Industrial and flex space demand continues to escalate at both the national and local levels. In Southern Westchester, the stock of industrial space tends to be older, with limited trailer access, and not always accessible to major highways. As such, some fluctuations in occupancy are to be expected as tenants compete to identify suitable options, landlords holdout for credited tenants, and/or upgrades are implemented. Development of warehouses is very difficult as Westchester's zoning regulations are strict. The re-purposing of obsolete retail space, while possible in other geographies, is extremely difficult, at present, in most Westchester municipalities. Considering these factors, it is not surprising to see Costar statistics reflect a modest increase in Industrial/Flex vacancy and a plateauing of lease rates at cyclical highs.

Investment Sales Quietude Nearing an End

The reduced number of investor driven transactions observed over the last few quarters has brought about a lack of transparent price setting, resulting in hesitancy from investors and/or their financial partners. Slightly higher interest rates also may require higher down-payments to hit the desired debt service coverage ratios, making deal financing harder to secure. On the other hand, the recovering economy, rising property replacement values resulting from supply disruption and considerably higher construction costs, combined with still attractive interest rates, will eventually trigger a rebound in transactions.

Looking ahead to the rest of the year, the report offers some signs of optimism.

"The sustained population movements out of densely populated urban areas into the suburbs and more rural areas is a pandemic-spurred silver lining to watch. It is reviving occupancy trends and investment into the weaker areas of Westchester's property market, and may benefit office and retail properties long term, as users shift out of the office space in the New York City urban core," said Tom LaPerch, director of Houlihan Lawrence Commercial

LaPerch noted that increased flexibility offered by a hybrid work environment has been shown to benefit workers, particularly parents with young families, and it may become a talent retention tool. However, he said a recent survey indicates that employees do not favor the establishment of satellite offices indicating that if they are going to be working in a corporate office, they prefer to do so at the company's headquarters or main location in the area.