



**Houlihan Lawrence Commercial Q4 Market report:  
Westchester commercial market faced challenges and  
opportunities in 2023**

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Gary Klein

Rye Brook, NY Westchester's commercial real estate market faced numerous challenges and opportunities in 2023, according to the Houlihan Lawrence Commercial Q4 Market report.

Asking multifamily rents moderated slightly but overall fundamentals are strong. However, under-construction unit count continues to decline as developers are facing meaningful increases in construction and financing costs.

Meanwhile, office rental pricing has been stable despite sluggish demand. Retail shops continue to face a challenging environment. Landlords are maintaining price discipline, in particular for highly visible retail assets.

Industrial space data suggests that supply-demand fundamentals - occupancy and asking rents - will continue to be favorable. Investment sales remain very weak underscoring valuation and financing concerns.

"Commercial real estate is entering a challenging period as low interest rate maturities start to come due. Interesting commercial real estate investment opportunities will likely become available in short order. Liquidity is restrictive and poorly capitalized owners will seek to sell. However, there are numerous market and economic risks that will add to the complexities of acquiring commercial real estate," said Garry Klein, managing director, Houlihan Lawrence Commercial division.

Here are highlights from the report:

#### Westchester Multifamily: Seasonal Weakness Modestly Dents Occupancy

Asking and effective rents for multifamily apartments were 1% higher as compared to Q4 2022. Occupancy fell 0.4% but remained over 95%. The market's modest decline in occupancy is similar in magnitude to new deliveries, indicating that in a seasonally slow quarter, the market was not able to fully absorb newly built product. Pricing remained stable with little fluctuation over the last four quarters.

Westchester's development pipeline has declined over the last two quarters but continues to be sizable at 7.5% of total stock. As the economy slows, under the weight of high interest rates, rental price gains may stall temporarily until pipeline deliveries fall or the economy re-ignites.

#### Westchester Offices: First Time in Seven Quarters that Office Demand Exceeds Supply

Improved demand for office space, led by Class A projects, helped establish a better supply-demand for offices in the last quarter of 2023. In fact, Q4 marked the first quarter in seven when demand for direct leased and subleased office space exceeded departures. Office vacancies improved 0.3%, leasing activity was modestly better, and this more benign environment allowed pricing to preserve the stability reached over the last few quarters. Nationwide, office building occupancy in major metropolitan areas continues to decline, according to Moody's analytics. Corporate managements are adapting to hybrid work and reducing footprints when practical. Resizing corporate footprints, sharing of workspace and common work areas are all conducive to smaller office sizes. In addition, office landlords face higher tenant improvement costs (TI's) to retain viable tenants, making the

environment even more challenging for office landlords.

#### Westchester Retail: Demand for High-Visibility Space Supports Pricing

Westchester's retail space was in surplus during the last quarter of 2023. Occupancy decreased 0.8% during the year and 0.2% in Q4. The new lease activity was predominantly clustered in higher-end projects supporting reported rental price statistics. After a rebound in occupancy in 2021, following reopening activity post-pandemic, retail projects have struggled again. Store consolidation or bankruptcy of struggling large footprint retailers has been a persistent headwind faced by Westchester retail landlords. Continued landlord discipline has been a key driver for pricing resilience. Landlords are resisting marking down rents and, in the other side, new retail concepts, and retailers wishing to expand into Westchester are facing higher operating and customization costs, therefore, appear unable to stretch for rent.

#### Westchester Industrial: Strength Continues

Industrial assets in Westchester, south of I-287 experienced renewed strength in the second half of 2023. According to Costar data, both occupancy and pricing have increased, over the last two quarters of the year, from already strong levels. Average rents ended the year at over \$16 PSF/YR and occupancy close to 96%. Demand from an affluent consumer and steep competition from retailers to provide just-in-time delivery service are favorable long-term trends driving the industrial market. Westchester industrial projects- South of I-287, enjoy a very constrained supply environment due to zoning and land use limitations that further support fundamentals.

#### Westchester Transactions: Deal Volume at Depressed Levels

Investment transaction volume remains depressed as the current economic and interest rate environment continue to be uncertain and clarity has not yet emerged as to real estate asset valuations. We expect that commercial real estate transaction activity during 2024 will be concentrated in distressed assets and re-capitalizations. Savvy investors will differentiate between assets that cannot longer perform in their current shape and assets that can be managed to perform. Recent FDIC liquidations of portfolios acquired during bank interventions of early 2023 are unlikely to shed light on valuation because transactions priced entire portfolios, not single assets. However, the new owners of these assets will likely sell single assets that do not fit in with their strategies and in doing so, will likely create fresh new pricing marks in the relevant markets.

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Houlihan Lawrence, founded in Bronxville, in 1888, has 32 offices and 1,450+ agents serving Westchester, Putnam, Dutchess, Columbia, Ulster and Orange counties in New York and Fairfield County in Connecticut.

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