

MARKETBEAT

WESTCHESTER COUNTY OFFICE REPORT



A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

2Q08

ECONOMY

The Westchester economy weakened in the first half of 2008 as the national recession was reflected in declining employment and consumer spending. Overall, payroll employment in the county fell by about 1,300 jobs, or roughly 0.3%. That's equivalent to the decline in national employment over that time period. Westchester is more influenced by large corporate employers who are experiencing declines in business causing them to lay off employees in the county.

Westchester has benefited from its proximity to the New York City economy, the engine of growth for the region. But the residential real estate market was hit hard particularly in the first half of 2008 as prices fell and sales slowed to a crawl. This has slowed consumer spending in the region and further constrained growth.

Overall, Westchester is expected to experience further declines in employment, income and sales in the second half of 2008 until the national economy stabilizes.

OVERVIEW

At the close of the second quarter, the Westchester County market remained remarkably strong despite a dip in leasing activity, a slight decrease in vacancy rates, and a significant slowdown in investment sales.

Overall availabilities countywide totaled more than 4.1 million square feet (msf) resulting in a 14.4% vacancy rate, a decrease from 15.3% last quarter and 14.8% one year ago. Overall class A vacancy registered at 16.7%; down from 17.6% recorded in the first quarter and on par with 16.8% recorded in the second quarter of 2007.

The Manhattan market's influence on Westchester County has diminished significantly and the expected leasing "spillover" effect was virtually nonexistent during the first half of the year. Leasing activity in the second quarter totaled 290,413 square feet (sf); down from the 348,074 sf leased in the first quarter and 356,360 sf leased in the second quarter of 2007. Significant transactions signed in the second quarter include: EMC Corporation's lease of 41,327 sf at 1133 Westchester Avenue in White Plains, New Edge Group's lease of 18,045 sf at 44 South Broadway in White Plains, and The Schwartzberg Companies lease of 17,000 sf at 4 West Red Oak Lane in Harrison.

Overall asking rents averaged \$31.29 per square foot (psf) countywide, on par with the \$31.28 psf recorded last quarter and up from \$30.51 psf one year ago. Class A rents averaged \$31.89 psf, up from \$31.75 psf last quarter and \$31.37 psf one year ago. The average class A rent for the White Plains Central Business District (CBD) was \$34.96 psf, slightly down from the \$34.39 psf average in the second quarter of 2007. Some office properties in the White Plains CBD are commanding in excess of \$40.00 psf.

FORECAST

While the market outlook is negative, the longer terms of today's lease contracts, combined with current demand (due to lease expirations) will sustain the market over the next six months. New construction will become less of a possibility, especially without tenant commitment. Landlords will continue to renovate existing structures rather than to construct new ones.

BEAT ON THE STREET


"Despite the negative outlook for the economy and short-term setbacks for the market, the supply-constrained nature of the Westchester County office market will enable landlords to both weather the current economic environment and continue to prosper."


ECONOMIC INDICATORS


National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.6%
CPI Growth	3.2%	2.9%	3.6%
Regional			
Unemployment	3.9%	3.7%	4.0%
Employment Growth	1.2%	0.8%	-0.3%

Source: Moody's | Economy.com

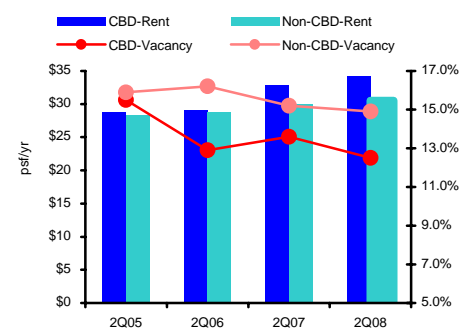
MARKET FORECAST

LEASING ACTIVITY is expected to increase with 12,000 to 15,000-sf tenants in the market. 

DIRECT AVERAGE RENTS are predicted to remain steady throughout the year, but tenant concessions are likely to increase. 

INVESTMENT SALES will continue at a slower pace due to the constraints of the debt markets. 

OVERALL RENTAL VS. VACANCY RATES



MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
White Plains CBD	6,239,527	48	12.5%	10.9%	159,492	0	0	72,098	\$35.55
White Plains Non-CBD	4,485,028	34	22.3%	21.1%	126,356	0	0	(168,657)	\$31.77
Northern	3,062,920	39	14.4%	14.4%	16,914	0	0	(17,300)	\$30.79
Central	5,810,402	66	14.1%	11.1%	82,406	0	0	(25,368)	\$29.35
Eastern	6,438,938	61	12.3%	9.9%	250,006	0	0	(9,878)	\$32.79
Southern	2,335,472	30	11.1%	11.1%	8,815	0	0	(17,140)	\$28.50
CBD	6,239,527	48	12.5%	10.9%	159,492	0	0	72,098	\$35.55
NON-CBD	22,132,760	230	14.9%	13.2%	484,497	0	0	(238,343)	\$31.33
WESTCHESTER TOTAL	28,372,287	278	14.4%	12.7%	643,989	0	0	(166,245)	\$32.13

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1133 Westchester Avenue	White Plains Non-CBD	EMC Corporation	41,327	A
90 South Ridge Street	Rye Brook	New York State	32,565	B
44 South Broadway	White Plains CBD	New Edge Group	18,045	A
4 West Red Oak Lane	Harrison	The Schwartzberg Companies	17,000	A
555 Taxter Road	Elmsford	EquiSearch Services, Inc.	13,810	A

SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Harrison Court Medical Center	Harrison	ProMed Properties	193,859	\$53,300,000

SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

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*Market terms & definitions based on BOMA and NAIOP standards.

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