

2014: A Year of Renewals

*By Howard Greenberg
President of Howard Properties, Ltd.*



Westchester County is still “rearranging the deck chairs” in its office market. As in the past, virtually all our leasing activity is intra-county. But there are signs that the diversification of the market into the medical and biotech sectors are helping to shore up occupancy levels, and increased interest in multi-family development will provide housing alternatives for a younger workforce that could be a key to attracting new companies to the county in the future.

Leases of under 5,000 SF, which have traditionally been more than 80% of the deals, have declined in number this year. It would appear that smaller companies are being conservative in their commitments. Consequently, inventory of small office spaces has increased.

The mid-size deals (between 5 and 10,000 SF) have increased in number, but the larger deals (between 25 and 50,000 SF) are way off last year’s total. The largest lease of the year was MasterCard’s expansion and renewal at 100 Manhattanville Rd. for 121,000 SF. This is a major commitment to the county, as is Pepsico’s total renovation of its headquarters in Purchase.

While the final figures will not be in until mid-January, we will have negative absorption for 2014, and leasing velocity has been very slow this year. The great majority of our leases have been renewals, some with expansions.

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The leasing activity and absorption figures for the first three quarters of the year have been lackluster, with net absorption of negative 168,000 SF through the 3rd quarter, according to Karolina Pardo-Alexandre, Research Manager at Newmark Grubb Knight Frank.

She told me that during the third quarter, Westchester had declines in leasing activity in the Western submarket of 55%, in the White Plains CBD of 39% and in the Eastern submarket of 18%. These figures represent a 14.6% and 20.5% decline from last quarter and last year. Only the Southern and Northern submarkets posted leasing gains through Q3.

IBM continues to give back space to the market, as it has been doing for decades. But these days, it is on the campuses it owns in Armonk and Somers.

In 2012 it put approximately 200,000 SF of its space on the market in Somers, and in 2013, it put an additional 285,000 SF on the market at its Armonk headquarters. The entire 287,000 SF MBIA campus in North Castle is on the market for sale. And Chappaqua Crossing (the former headquarters of Reader's Digest) has had some leasing activity, but is still struggling to lease hundreds of thousands of square feet of office space. These properties represent well over 1 million SF of space on the inventory that is skewing the vacancy rates higher. We have had only one lease of over 100,000 SF so far this year, and two leases between 50,000 and 100,000, so there is not a high level of demand for large blocks of space.

One of the largest leases of the year was MBIA's 85,000 SF at Centre at Purchase. Now the 287,000 SF campus owned by the bond insurance company is on the market for sale. It will be interesting to see who lands there. It could be a corporate headquarters, or some alternative use. The vacancy of the former campus means that the new lease is really a negative 202,000 SF of absorption for the market.

Distress and success

A number of office buildings have fallen into financial distress or receivership after losing major tenants. 3 Westchester Park Drive (formerly known as 3 Gannett Drive) is in receivership after Heritage Realty Services defaulted on its mortgage following the loss of its anchor tenant Wilson Elser to RPW Group's 1133 Westchester Ave.

1311 Mamaroneck Avenue went back to its lender after a stint in receivership, and was purchased at a discount by its former owner Onyx Equities. Onyx is reportedly in the process of buying the complex on the south side of Rt. 287 that currently is master leased by Jones New York and occupied by that company and PepsiCo for swing space while its Purchase headquarters is undergoing a major renovation.

White Plains Plaza (1 No. Broadway and 445 Hamilton Ave) lost law firm Jackson Lewis to 44 South Broadway (44,000 SF for its lawyers group) and 1133 Westchester Ave. (23,000 SF for its administrative group).

There have been some successes as well. Faros Properties has exceeded all expectations in its lease-up of 120 Bloomingdale Rd. (also bought out of receivership), and has reportedly agreed to sell 555 Theodore Fremd Ave. in Rye at a significant profit after improving occupancy in that asset. GHP has purchased Taconic Corporate Park in Yorktown at a very favorable price from its lender. With low cost bases in these distress purchases, new owners can afford to do necessary renovations and still offer competitive rents.

Brian Carcaterra of CBRE is leasing agent for the 1.5 million SF Normandy portfolio in the 287 East submarket. He reports they have been pleased with their year. But it has been comprised of primarily renewals (some with expansions), and early commitments by tenants to longer lease terms. Their retention rate was over 90%, which is very impressive in this market. Overall, the portfolio has signed about 125,000 SF of leases, with documents currently being negotiated for an additional 75,000 SF. Their goal for 2015 is to supplement this year's success with new transactions.

Dannon is currently in the market for about 120,000 SF, as the end of its term nears at its Hillside Avenue building. They, too are looking for a way to keep everyone on as few floors as possible, and are reportedly focusing on the huge 44,000 SF floors at 44 South Broadway in the White Plains CBD.

Acadia Realty Trust has signed a lease for about 29,000 SF at 411 Theodore Fremd Ave. in Rye. This represents an interesting dynamic, as it will leave its current space (at 1311 Mamaroneck Avenue, which has been in receivership), for a building that had its economic problems years ago, that has been sold to new ownership and has recapitalized. U.S. Alliance Credit Union in Rye has also signed for about 10,000 SF at this building.

A fairly quiet CBD

A couple of bright spots in the WP Central Business District (CBD) include increased leasing activity at the Ritz-Carlton office space (luxury women's wear shop Mary Jane Denzer leased the prominent retail space

this year), and continued subleasing success by Alliance Bernstein at 1 No. Lexington Ave. Argus Information and Advisory Services (a company that provides analytics, information and solutions to consumer banks and their regulators) is reportedly taking an additional 33,000 SF of the Alliance Bernstein space, after doubling its size to 50,000 SF when it relocated into that space a few years ago). Fortistar Capital renewed and expanded to 18,266 SF in direct space at 1 No. Lexington. Westchester Bank is establishing its new headquarters at 12 Water St. in about 11,000 SF. It will occupy 25% of the building and will have exterior signage rights.

But activity in the CBD in general has been quiet this year. Large CBD sublease spaces continue to languish, including the 42,000 SF Pearson Education sublet at 10 Bank St. and the 44,000 Arcadis sublet at 44 South Broadway.

Mack-Cali has invested money in its CBD properties for exterior upgrades to 1 Water St. and 1 Barker Ave., as well as lobby upgrades at 50 Main St. and demolition of vacant spaces.

John Barnes of Reckson/S.L. Green tells me they had strong activity in their CBD buildings. Soon, they hope to be over 90% leased at the Ritz-Carlton office space, and they have done well at 360 Hamilton Ave., where they did an approximately 20,000 SF renewal/expansion with Arch Capital Services, and 140 Grand St. is now in the mid 90's occupancy. He tells me they did very well in small deals and small-deal renewals portfolio wide.

Route 119 deals

In the largest investment sale of 2014, Mack-Cali has sold its entire Rt. 119 office portfolio (consisting of 200 and 220 White Plains Rd. and 555, 565, and 570 Taxter Rd.) to Keystone Property Group. This reduces the firm's office portfolio by about 600,000 SF. Mack-Cali has been hired to do the leasing, space planning, construction and legal work for the new owner. With the shrinkage of its footprint, its remaining Mack-Cali Westchester portfolio is now over 90% occupied, with particularly strong activity this year in its flex and industrial space. Their office space in Yonkers is 100% full, with a 19,000 SF renewal with Progressive Insurance this year.

Greg Frisoli of Newmark Grubb Knight Frank is leasing agent for RXR's portfolio on the 119 corridor in the West submarket. He tells me they had a pretty good year, primarily with internal renewals and expansions. The flagship deal was a 15,000 SF expansion by Prestige Brands at 660 White Plains Rd., bringing it to a total of about 58,000 SF. Greg feels there is interest by larger tenants in keeping most or all of their employees on one floor-not an easy feat in our market when you get over 25,000 SF.

RXR finally lost Bayer Pharmaceuticals, which occupied most of 555 White Plains Rd., after an announcement about three years ago that it would consolidate its operations in New Jersey. The building will need significant refurbishment, but it is one of only a few buildings on the West Side that has a large block of space available, so it will get inspected by those companies who want the location and will have few, if any, other places to go.

Reckson's 1st Niagara Bank lease at 520 White Plains Rd. in Tarrytown was one of the largest deals of the year, and one of the few that represented fresh absorption to the market.

A healthy health care market

The first new building constructed in the county since the mid 1980's will open early next year at Harrison Corporate Park, now renamed Purchase Professional Park. Its entire 85,000 SF is preleased to WestMed. The 114,000 SF Memorial Sloan Kettering Cancer Center has opened at 500 Westchester Ave. And buildings like 440 and 450 Mamaroneck Ave., 550 and 600 Mamaroneck Ave. and others continue to lease space to new medical tenants, which are boosting their occupancy. New York Medical College is in process of renovating 17 Skyline Drive, a 248,000 SF building it purchased from Mack-Cali in 2013, and it has just opened a biotech incubator building on its campus.

A 184,000 SF portfolio of multi-tenant medical office buildings at 222-244 Westchester Ave. was sold by ProMed to Healthcare Trust of America for a whopping \$350 PSF, which is “telephone numbers” compared to what office buildings are selling for today.

The biotech sector continues to grow in the county. Regeneron (named the best company to work for by Science Magazine) now occupies about 600,000 SF of primarily purpose-built laboratory buildings at Landmark at Eastview. There is apparently demand for the vacant space in the complex coming from companies out of the area. Acorda Therapeutics, the anchor tenant at Ardsley Park expanded by 25,500 SF earlier this year. And the North 60 project is reportedly moving forward in an effort to create a new medical and biotech park on county-owned land in Hawthorne.

A dearth of new tenants

Glenn Walsh of Newmark Grubb Knight Frank represents RPW Group as leasing agent, among many other building owners. His take on the market is consistent with his colleagues in that it was primarily renewal based. He sees smaller companies being very conservative, and opting generally for shorter term renewals rather than long term commitments. When that is the business plan, it is difficult for them to relocate to another building, as landlords cannot afford to build out space for short lease terms. Generally, he feels that tenants in the market are shuffling around within the county, looking for slightly better economics or upgrades to nicer buildings with more amenities. But, as usual, there is a dearth of new, inbound tenants that would actually increase space absorption and bring new support businesses with them.

The Manhattan office market is very strong now, and the delta between its rents and Westchester rents is as big as it has ever been, but we are still not seeing our fair share of Manhattan tenants migrating north to Westchester.

Image removed by sender. Landlords, while all needing deals, are trying to get enough Net Effective Rent (the rent they actually put in the bank after free rent, construction, legal and brokerage expenses are deducted) to make the deal a positive one economically. This is not an easy task, as operating costs, RE taxes and construction costs have all gone up significantly over the years, while rents have remained basically stagnant since the late 1980's.

'Densification' an office trend

Densification is definitely in vogue, primarily among larger tenants. This is a fancy word for reducing the square footage per person, primarily through space plans that consist almost exclusively of workstations, rather than private offices. Instead of the old formula of 3 to 5 people occupying each 1,000 SF of space, these new layouts can often accommodate 6 to 8 people in the same amount of space. Office building parking lots are more crowded as a result of this trend. Ultimately, this will restrict buildings from leasing, as they will not have enough parking spaces available to lease the last 10-20% of space in their buildings.

Office park housing

Normandy Realty and Toll Brothers are partnering to bring multi-family to the office parks along the Platinum Mile. They have applied to Harrison for a zoning change to permit construction of more than 400 units of housing for both millennials and empty nesters on the site of 103/105 Corporate Park Drive. 103 has literally been boarded up for probably a decade, while 105 has only one tenant. This project has the potential of turning 200,000 SF of obsolete and primarily empty office space into a live/work/play community with walkways connecting it to the adjacent Lifetime Fitness facility as well as ground floor retail for services, restaurants and entertainment uses. Given that there are no residential neighbors to oppose the project, logic would dictate that it receives approval in a timely manner. It would be attractive to the surrounding corporate parks to have housing literally within walking or shuttle distance for employees. This park has already moved in new directions with the Hyatt House suite hotel, a child care center, and two buildings purchased by biotech company Histogenetics for its own use. It is fitting that the oldest office park on the Platinum Mile could be the first one to morph into a totally new environment.

Building for commuters

Buildings on the Platinum Mile that provide private shuttles from the White Plains Metro-North Station are being forced to increase the capacity of those shuttles to serve the increased number of workers commuting by train. Glenn Walsh feels we need a new gateway to the county at the White Plains Metro-North Station.

Developer Louis Cappelli had a proposal years ago to redevelop the entire area, but it got shelved during the recession. Imagine the boon to our market if the White Plains Metro-North Station had a Grand-Central Station-like retail and restaurant component connected to it! That would provide a great new gateway to the city, as well as much-needed dining options for the office buildings that are near the station. Plans are in the study stage now.

TOD, transit oriented development, is hot. New Rochelle just announced it will hire a partnership including Renaissance Downtowns and RXR Realty to plan for the redevelopment of the area around its train station.

Harrison has recently approved Avalon Bay to construct new multi-family housing and parking structures around its train station. LCOR is finalizing approvals for its new buildings 2 blocks from the White Plains Metro-North station. The attractions of these projects are: walkable communities with services, restaurants, nightlife with direct access to the train for commutation and trips to NYC. The developers believe these buildings will attract empty nesters, as well as young professionals.

There are also new luxury multi-family projects in late stages of construction in White Plains off Maple Ave. that are being constructed in the new modular method, where fully finished units (with walls, kitchens, bathrooms in place) are literally stacked on top of one another. The Cambria Suites Hotel is now open and operating in the White Plains CBD (also a modular construction) and has capped off the redevelopment of the entire block of Main St. between City Center and North Broadway.

Retail is also pretty vibrant. Two examples are the 20,000 SF store on Rt. 119 in White Plains that was vacated by Staples and immediately reconstructed for a CVS. Across the street, the retail space formerly occupied by the bankrupt Loehmann's chain was quickly leased by Saks Off 5th.

There are a lot of good things happening in our market. Biotech companies, along with new medical offices, cancer treatment centers and urgent care centers are occupying laboratory, office and retail spaces. Older office building inventory continues to be repurposed. New multi-family development, both suburban and transit oriented, should attract and retain young professionals, as well as provide product for empty nesters who want to stay here. The Westchester County real estate market has significant development activity in many different product types, and that is a healthy sign for the future.