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Real Estate Update: Westchester's Commercial Market on Its New Normal

David Levine

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Has the COVID-19 pandemic decimated the Westchester commercial real estate market? Or has it launched a substantial boom?

Back in the “Before Times” — prior to when anyone knew what a coronavirus was or had ever worn a surgical face mask — the suburban-New York commercial real estate market was humming along nicely. The economy was good; businesses were optimistic; offices were being built and leased.

Then came COVID-19, which hit the real estate industry especially hard. “During the latter half of March, April, and May, we were basically frozen,” says Andrew Weisz, executive vice president of RPW Group, a large, commercial-property ownership firm in Rye Brook. “The real estate market as a whole was put on pause as we all tried to learn more about the disease and prepare for the future,” adds Weisz, who is responsible for directing the firm’s real estate investment and leasing activities.

With so many companies cutting back operations and most of them working in virtual mode, offices emptied. Some companies chose not to renew leases on workspaces or cut down on the amount of space they were paying for. Others tried to hang on as best they could but found themselves unable to pay the rent. For a long, nervous while, things looked grim. But then, they didn’t.

“Starting in June, the market reopened,” Weisz says, referring to an uptick in activity. Indeed, many local real estate experts seem to feel that the coronavirus may have launched a new real estate boom in the region. Of course, this is not to ignore the tragic toll in lives lost, health impaired, finances ruined, and well-being disrupted. It simply recognizes how pandemics throughout history have changed life as we knew it, often in unforeseen ways.

Covering Your Assets

“Overall, there is a diversity of real estate sectors in Westchester, so it’s hard to address [the effects of coronavirus] in generalities,” says Michael Romita, president of the Westchester County Association. “The pandemic influenced various sectors in different ways. Clearly, there was a softening in activity in commercial office space, but I wouldn’t say [the impact has been] terrible.”

During the early months of the pandemic, he notes, there was not an exodus of office leaseholders; rather, landlords and tenants in general were discussing work-arounds. “Rents

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were coming in; landlords were getting paid, though some were getting strung out a little bit," Romita says.

Weisz reports that his company did have a few tenants in financial stress whom "we worked with and cooperated with." Only three of more than 300 tenants needed assistance paying rent, he says, adding: "Nearly all our tenants have stayed in business and are doing their best to meet their obligations." His own firm also weathered the storm. No one was laid off, and, in fact, they have hired more cleaning staff to meet the requirements necessary to fight the virus, Weisz says.

All the larger, local commercial landlords have generally weathered the crisis well. As long as the landlord can cover debt costs, they should be fine in the long term, says Romita. "Someone once told me that when the tide goes out, it exposes those not wearing swim trunks," he says, noting that so far, all the bigger players seem to be well covered. "If landlords are overleveraged and experience a decline in revenue, that's when their buildings get chopped up," he says. If that had happened, "we would see assets for sale, and we haven't seen that yet."

For developers building new assets, the pandemic presented a different kind of challenge. The developers behind Switch210 — a historic switching station in White Plains that has been converted into high-style multipurpose office spaces — were almost ready to come on the market when things shut down in February. They decided to finish the project anyway. "If you are 90 percent through a project, you finish it. We were tying up some loose ends, so we just trucked through," says Florim Bajraktari, property manager at Switch210. "We were concerned, but we decided to finalize it either way and see what comes of it."

What came of it at first wasn't much. "February through May, it was quiet," Bajraktari says. "A ton of phone calls but nobody coming to do any showings. We did virtual showings to adapt, but it was slow." By the end of May, though, Bajraktari began conducting on-site showings, and the first leases were signed in June. Demand increased through July and August. "We are seeing a lot of people," he said in September, averaging about three showings and inquiries a day.

Most of the deals that Bajraktari and other commercial property managers are seeing are on the smaller scale. Prospective tenants, he says, are looking for office space "for two, three, four people, maybe 1,200 to 1,500 square feet," and many, Bajraktari adds, "worked in New York City previously but live in Westchester." After working from home for several months, these prospects now realize they can do everything in Westchester that they did in the city, "but not have to play the rat race," he notes. Bajraktari also expects some of these smaller spaces to transition to larger ones as more people choose to stay closer to home.

"COVID took the pep out of everyone's step; it shocked the market back. But without a doubt, there is a resurgence in people's demand to see space, and it's opening their eyes to do

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business in Westchester and not need to be in the city,” he says. “The coronavirus has made people re-evaluate their living and working situations, and we have seen a surge in residential real estate, which we think is also trickling down into the commercial sector, because people want to work where they live.”

The Lure of the Suburbs

Westmed Medical Group faced a different concern when the pandemic hit. The company was in the process of renovating a brand-new corporate space when they decided to move to a remote-work strategy for corporate employees. During this time, due to the cancellation of elective procedures and stay-at-home orders, patient volume across the clinical sites fell off dramatically. “We had been planning this move for quite some time, and COVID-19 definitely caused some challenges,” says Anthony Viceroy, CEO of Westmed.

In March, the company decided to consolidate offices temporarily and secure loans “to ensure the financial security of Westmed in the long-term,” Viceroy says. “We experienced a drastic decrease in patient volume during the stay-at-home orders, but we managed for the time being to provide patients with access to care through telehealth appointments.” The company also tweaked its new corporate office’s plans a bit. “Originally, when the space was designed, we had intended for much of the floor plan to remain open-concept. With a need for continued social distancing and employee safety in mind, we decided to pivot on those plans and redesign the workspaces to allow for increased privacy and space between the cubicles in the main areas,” he adds.

Overall, Viceroy is optimistic about the region and its real estate sector, particularly along Westchester’s Platinum Mile, with such developments as the new Wegman’s grocery store in Harrison and other new healthcare buildings. “Now that the housing market in the area has turned up with people moving out of the city to avoid crowds, I suspect we will see further growth in commercial real estate in Westchester,” he says. As more organizations look for space outside of the city while uncertainty from the pandemic continues, “Westchester commercial real estate certainly could be a prime location, offering many of the same benefits that an office in Downtown [Manhattan] might, perhaps with less of the cost,” he says.

Property managers and commercial real estate firms are jumping on this trend. Rand Commercial Properties, for one, is marketing its new office complex in Briarcliff Manor with shouts (in all caps, natch) of both rat-race-free and COVID-specific enticements: “Stop Commuting! No More Parking Garages! No More Crowded Elevators!”

Diamond Properties reports that it has experienced increased demand at Velocity, its office-suite space in North White Plains. “We believe that as fewer people commute to New York City, they will be inclined to lease individual offices closer to their homes,” says Mark Blandford, Diamond’s senior vice president, who notes the company has negotiated leases with tenants who are being subsidized by their firms in the city. “We are bullish enough on this model that

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we are opening new Velocity locations in Pleasantville, Danbury, Stamford, and South Norwalk,” he says. “We think that there is a lag in office demand, as many companies are still working remotely and have existing leases in New York City. We expect that as leases start to expire, there will be an uptick in demand in Westchester, Fairfield, and surrounding suburban markets.”

The company has also decided to embrace the “new normal” of virtual marketing. “Instead of weathering the storm, we’ve taken a proactive approach to lease space with our investment in Matterport Software, a 3D virtual-tour software to show space,” says Laressa Gjonaj, Diamond’s marketing director. “With some potential tenants reluctant to visit commercial spaces, we have the ability to virtually walk them through the space for lease,” she says. “We’ve not seen many Westchester-based commercial real estate companies using this technology, so we’re excited about rolling this out for all of our properties.”

Working Out Coworking

The pandemic has had a dramatic effect on coworking spaces, as well. “COVID definitely impacted our business in a big way, as we were closed from mid-March to mid-June,” says Christy Knell, cofounder of HudCo, a popular coworking space in Dobbs Ferry. “When we reopened, it was a slow reentry, as our members took time to regain a sense of comfort in venturing out of the house and back into the space.”

But, as with others, her business picked up heading into fall. “We’re finding more and more new members who represent a segment we didn’t see as much before: the full-time workers who are now working from home rather than commuting to the city. Most of these new members still work at home part of the time but find it very difficult to get heads-down work done with other family members who are now around much of the day because of remote school and work,” Knell says. To meet these changing needs, HudCo now offers a Family Plan, which allows members to share their access to the space with a partner or spouse to help those juggling work and childcare. “While one parent is home, the other gets a chance to get work done here at HudCo, and then they can swap spots the next day,” she adds.

Looking to tap this market, another new coworking space, called the Idea Kitchen, was scheduled, as of press time, to open in Larchmont in October. If everyone in the commercial real estate field is correct, there should be plenty of room for the competition. Knell, like the others, is optimistic business will be strong in a post-COVID world. “So many people and businesses are now embracing and encouraging remote work,” Knell says. “There really isn’t a need to commute to the city if it’s possible to work remotely, closer to home, and for those who really love the community and productivity you get working in an office, [coworking spaces] offer the best of both worlds.”

That is just what Westchester itself offers, according to Romita. “Looking to the future, if Westchester wants to position itself to take advantage of the opportunities that might come

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out of [the pandemic], clever developers will be looking at the suburban-cluster model: high-class office space close to retail and lifestyle venues, entertainment, dining, and urban cores — all things Westchester has going for it,” he says.

It’s important to remember, however, that things are far from settled. Near-term, experts in the industry still harbor some concerns. Like everywhere else, the county is waiting to see what the federal government does with future stimulus packages. “If that [money] doesn’t come, it will be a self-inflicted wound caused by the failure of the government to act,” Romita warns. He, along with others in his position, are pushing hard for a second round of stimulus funding, particularly for state and local governments and unemployment benefits. “If we get this money, it will help the local economy weather the pandemic for an extended period of time. If we don’t, in terms of a suburban boom, let’s face it: A poor economy helps nobody.” (At press time, negotiations regarding a second round of stimulus funding were still in progress.)

For that reason, he feels there is too much uncertainty for the next six months or possibly longer to fully jump on the suburban-real-estate train just yet. “But farther down the line,” he says, hopefully, “you gotta be pretty bullish.”

Freelance writer David Levine is a frequent contributor to 914INC.