

While Orange County office space market is soft, health care remains a bright spot

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If Orange County's industrial real estate market has roared back from the recession, the office space market has been slower to recover.

More office space is occupied since the vacancy rate hit a recession-year high of 13.2 percent in 2009, but one in 10 feet remains empty, according to Goshen-based broker Mansfield Commercial Real Estate's recent report on the state of the market.

That 10.3 percent vacancy rate is barely better than the county's 10 percent total in 2007, despite the overall inventory growing 17 percent to 6.2 million square feet since then.

Office inventory is going up, while there are still plenty of vacancies, because companies are constructing new customized space and leaving old buildings behind, said the Orange County Partnership's Maureen Halahan.

"There are still a lot of office users, but the market hasn't picked up like landlords would like," said Elisabeth Mansfield, the broker behind the report. "Office vacancy rates have been inching down, but very slowly. The market is still in the recovery stage."

Halahan is currently working on filling the space county officials will vacate, at 40 Matthews St. in Goshen, when they move into the renovated Government Center by year's end.

She and her staff are trying to get corporate executives to lease the space, pitching it to some among the 33 percent of Orange County residents who commute to work outside the county.

"For those business leaders who commute outside the county, the Orange County Partnership is trying to educate them on the office space we have available, so their companies can thrive close to home," Halahan said.

The market for the best-located and most well-constructed local office sites, or prime space, has been slightly better, according to Mansfield's report. But with a vacancy rate of 9.1 percent in 2016, compared with 9.5 percent in 2015, even demand for Class A office space is soft.

"When I came up here in 1989, everybody was like, 'All the back-office corporate stuff (like call centers) will come up from Manhattan, and the demand is going to be incredible,'" said Mansfield. "It never happened. All those office space uses either went offshore or people started working at home."

Orange County's office market mostly serves local firms instead of companies based outside the county, and local businesses' demand for office space has grown slowly, Mansfield added.

The vacancy rate for Class A office inventory is down from a recent high of 12 percent during the recession, but it's still higher than a 2007 low of 8 percent.

Orange County Regional Medical Center is among the companies that have helped soften the local office market by vacating existing offices after constructing customized space.

Touro College of Osteopathic Medicine and a BOCES vocational program for high school students now occupy some of the space Orange Regional used before it consolidated its Middletown and Goshen campuses at a new hospital in 2011.

But when Orange Regional recently built new offices at its 707 E. Main St. home campus in the Town of Wallkill, ORMC relocated its doctors' practices from a medical tower at 75 Crystal Run Road. Now, 75 Crystal Run is three-quarters empty after being more than 85 percent full. Even so, the building's owner, the Chicago-based real estate investment trust MBRE Healthcare, is optimistic.

Marc Westmeyer, a senior vice president with the firm, thinks the building will bounce back with a mix of medical practices and life science-related tenants, given the demand for medical office space.

Westmeyer said the health-care office space market is stable, because people want to be close to their doctors. Unlike corporate headquarters, physicians can't move anywhere and retain their customers.

Plus, existing medical buildings like 75 Crystal Run are a good value, because they're specially equipped to handle their tenants' unique architectural needs, and health-care practices can collaborate and cross-refer patients, he added.

Indeed, local health-care practitioners have been a bright spot for the county's otherwise lukewarm office space market.

Nearly 60 percent of the prime office space built in Orange County in the past 15 years has been health-care-related. Just last year, Crystal Run Healthcare, a huge, fast-growing, multi-specialty physician practice, built a 70,000-square-foot office building in Monroe.

"Medical office space is just growing leaps and bounds across the nation," said Westmeyer, whose company has an 86 percent occupancy rate for 10 million square feet of medical office space across 31 states. "It's probably one of the best niches in the commercial real estate sector, because it's stable, and demand is only growing as there's an aging population that need health-care services."
