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Fairfield County Office Market Overview

Market Observations

Economy

- The state of Connecticut continued to show resilience in the first three months of 2024, gaining 4,900 nonfarm positions in March, up 0.3% from the previous month and 1.1% year over year.
- Eight of the ten major industry sectors recorded job increases in March 2024, including the leisure and hospitality sector, which was boosted by increased interest in March Madness and St. Patrick's Day falling on a weekend while March retail trade benefited from an early Easter. Job losses were centered in the professional and business sector, which lost 1,600 jobs (-0.7%).
- The Fairfield County unemployment rate ended at 5.5% in February, up from 4.7% in the prior year and above the 4.2% national rate. The statewide unemployment rate ended at 4.5%, up from 4.1% a year ago.

Leasing Market Fundamentals

- The overall availability rate ended at 25.9%, improved from 27.6% recorded a year ago and from 26.3% at year-end 2023. Long-vacant, underutilized space slated for redevelopment that was removed from the market had a significant impact on overall availability.
- Leasing activity totaled 600,000 SF, on par with 2023 leasing volumes but 21% below the 10-year historical average of 760,000 SF. Net absorption was negative 41,283 SF, mainly due to space recently added to the market at 1600 Summer Street in Stamford.
- Small-to-midsize deals drove demand this quarter with 17 deals between 5,000 SF to 10,000 SF totaling 112,000 SF, nearly doubling totals seen a year ago. Deals ranging from 10,001 SF to 25,000 SF were up significantly from a first-quarter historical standpoint, with 18 of those completed for nearly 290,000 SF, up from 11 deals for an average volume of 177,000 SF. Conversely, there were no deals for more than 50,000 SF this quarter.

Major Developments

- With office-to-residential conversions soaring in 2023, the county's inventory base started the year with 37.5 million SF, 1.0 million SF less than in 2023. Buildings no longer reflected in this year's statistics include 800 Long Ridge Road and 1 Elmcroft Road in Stamford.
- Following a national pattern of office landlords grappling with upcoming debt maturities leading to a surge in defaults, in recent weeks, Empire State Realty Trust reached an agreement with the mortgage lender of its property at First Stamford Place to transfer the property through a consensual foreclosure process. The deal, will satisfy the outstanding loan associated with the property, and is expected to eliminate a $176 million liability that matures in July 2027.
- Indeed, one of the county's largest tenants in the market, is rumored to be finally trading papers to relocate its headquarters within Stamford. The recruiting firm, which currently occupies 200,000 SF within the RFR portfolio, has seen its requirement shrink over the past five years from 330,000 SF to a minimum of 120,000 SF.

Outlook

- Investment sales activity continues to be impacted by suppressed demand and higher interest rates. Policymakers still have a way to go in cooling inflation, but the trade-offs between bringing down prices and keeping employment high are going to be heightened in 2024. With bond yields trending higher in 2024, the expectations regarding the timing and number of rate reductions by the Federal Reserve in 2024 have scaled down.
- Office space demand will remain focused on amenitized and modern spaces with landlords that are in position to make deals quickly. As firms continue right-sizing, small-to-midsize deals are likely to continue driving demand, and pre-builts will be the most favorable product.
- Asking rents ended at $38.81/SF, mirroring the rate recorded at this time last year but higher than the $38.41/SF rate at the end of 2023. While face rents have held firm, in order to compete in a tenant-friendly market, landlords are expected to continue offering generous concession packages.

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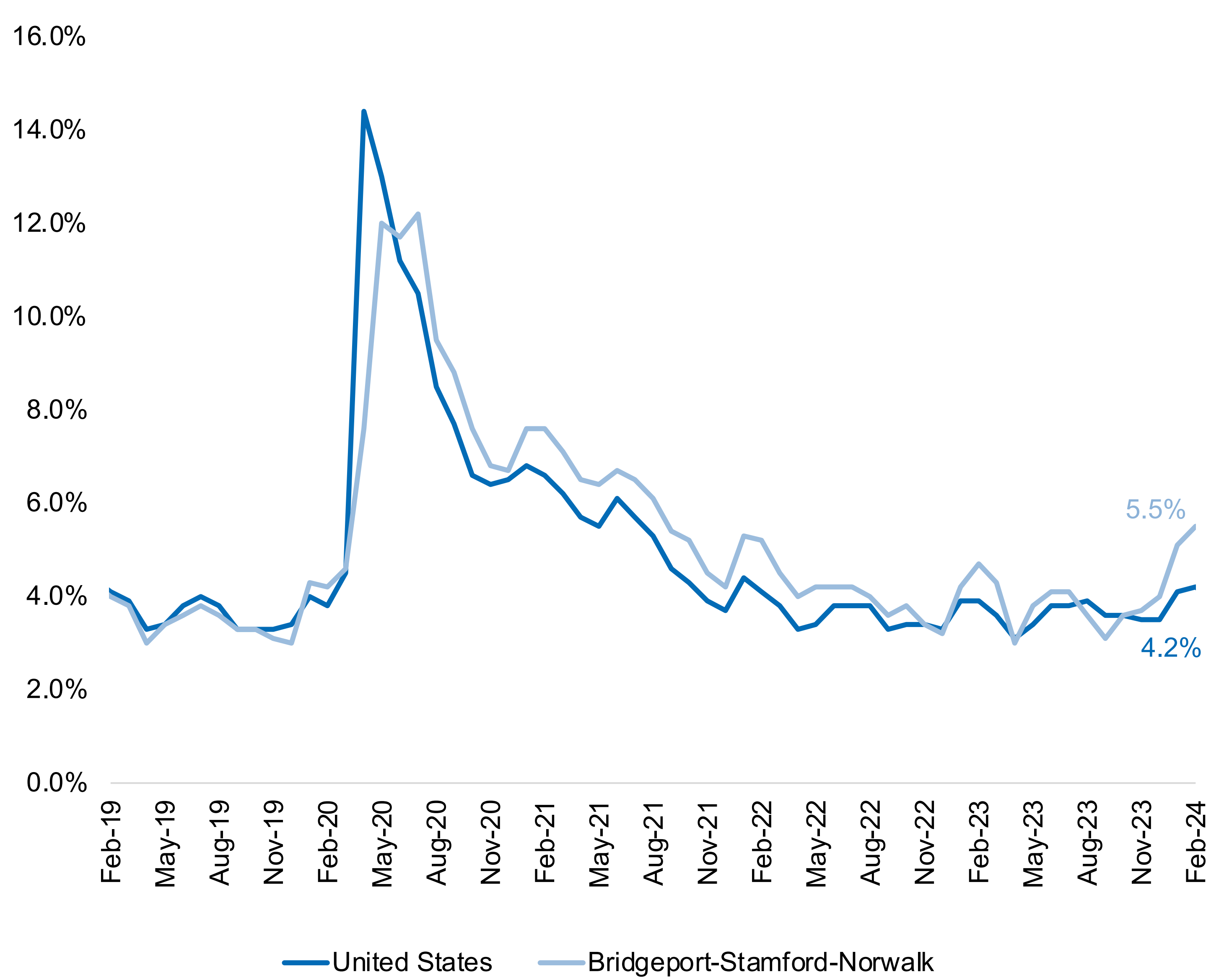
Economy

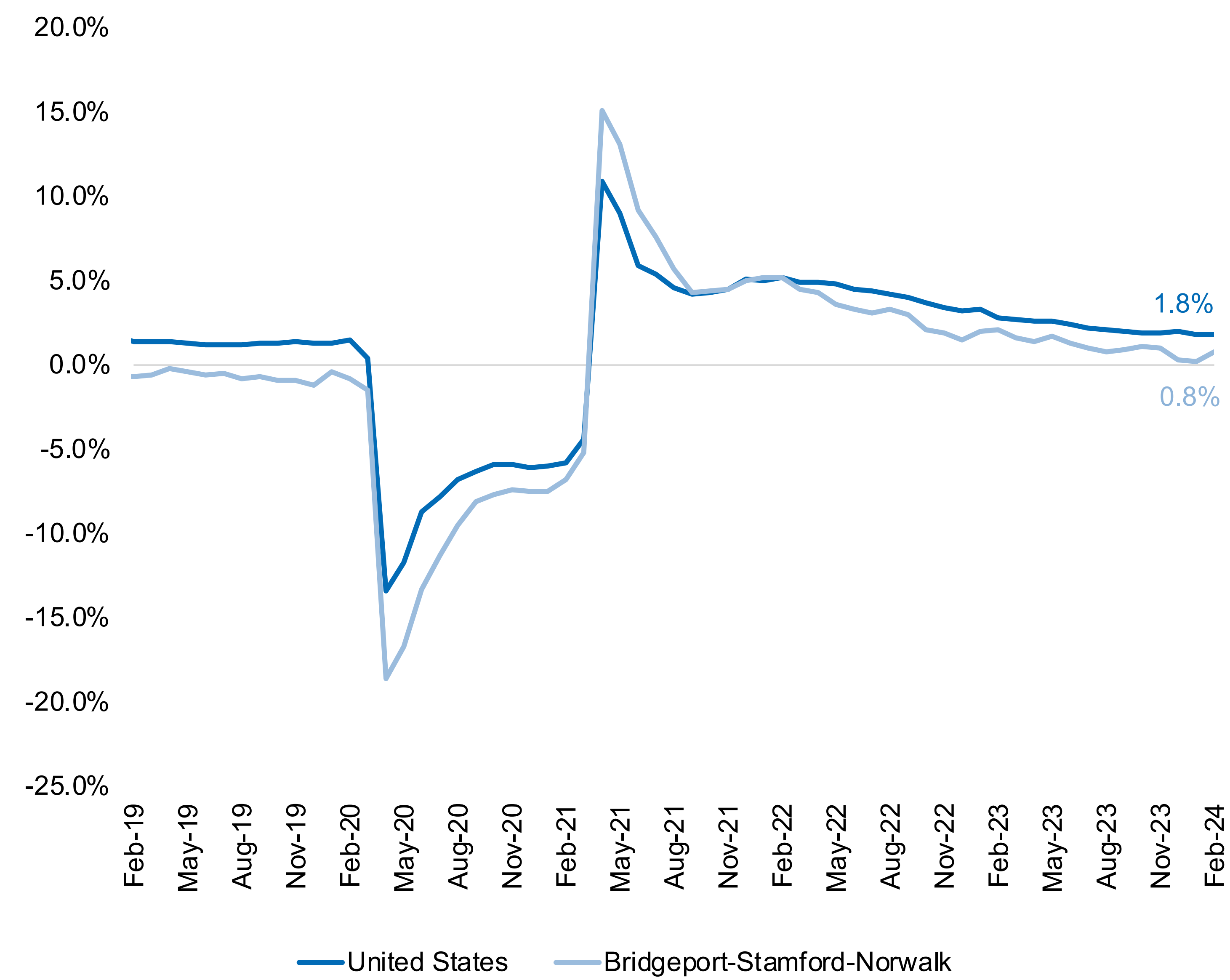
State's Jobless Rate Increases but Nonfarm Payrolls See Healthy Gains

Payroll jobs increased by 4,900 positions, or 0.3%, statewide during March 2024, comprised of 4,400 private and 500 public positions. Over the year, payroll employment is 18,900, or 1.1% higher than March 2023 levels. The unemployment rate saw year-over-year increases for the state, county and across the U.S. with respective percentage point increases of 0.4, 0.8 and 0.3. While the private sector has recovered 103.6% of the jobs lost during the COVID-19 pandemic in March 2020, the public sector has recovered 84.4%

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

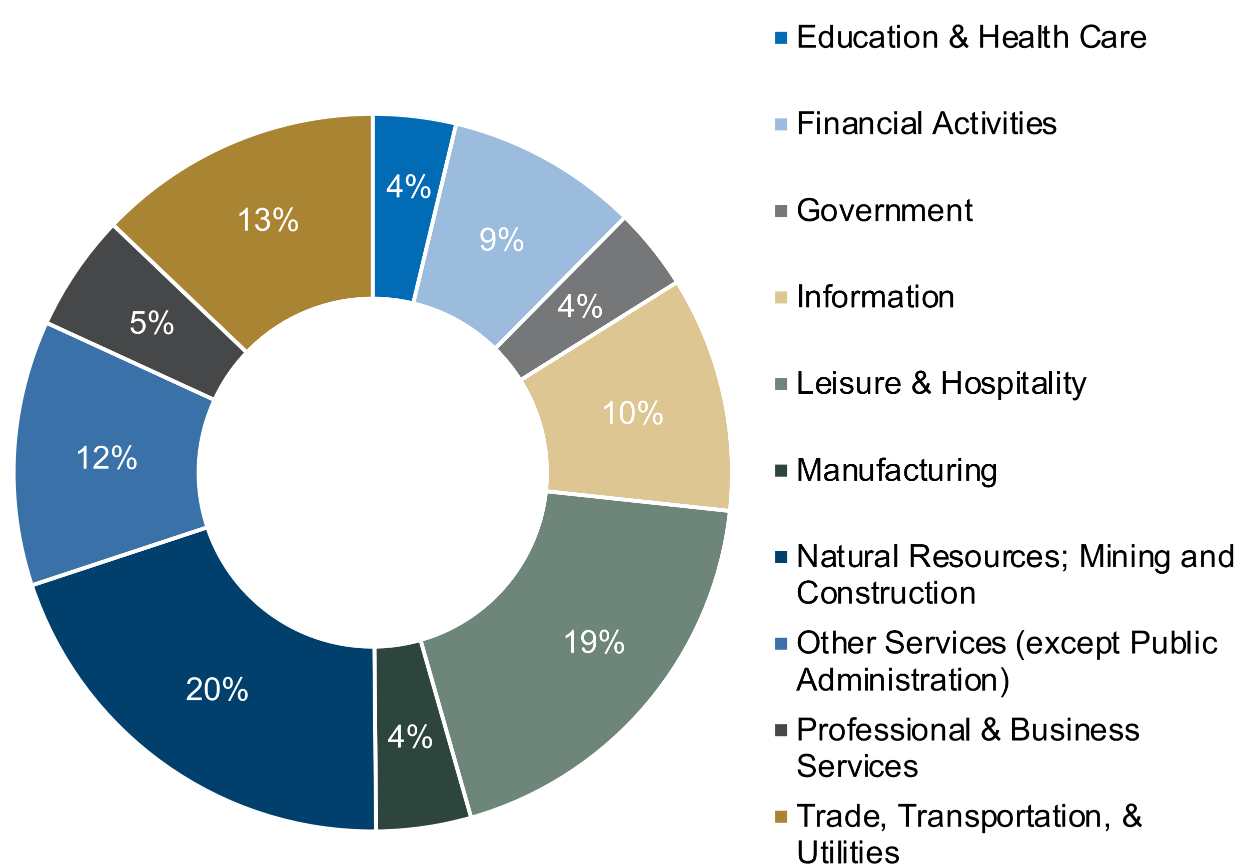


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area (*Not Seasonally Adjusted*)

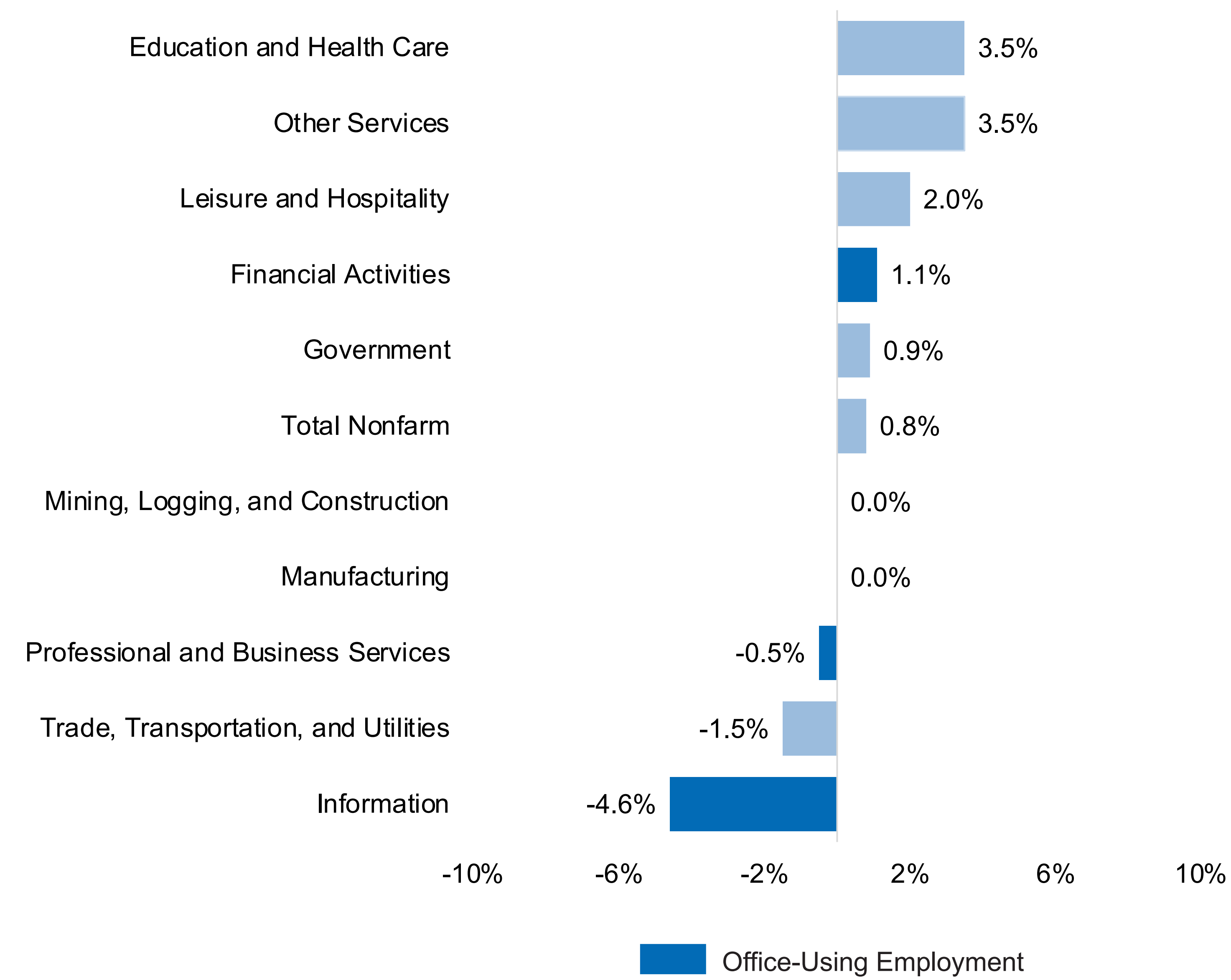
Employment by Industry and Employment Growth

Statewide, eight industry super sectors added jobs in March 2024 while one recorded losses. Leisure and hospitality were included in those that added jobs, with 2,100 jobs (or +1.4%), followed by trade, transportation, and utilities (+1,300, or +0.4%) and education and health services (+1,000, or +0.3%). The professional and business sector lost 1,600 jobs in March 2024 (-0.7%). On the county level, year-over-year gains were seen in the education and healthcare, other services, leisure and hospitality, financial and government sectors.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

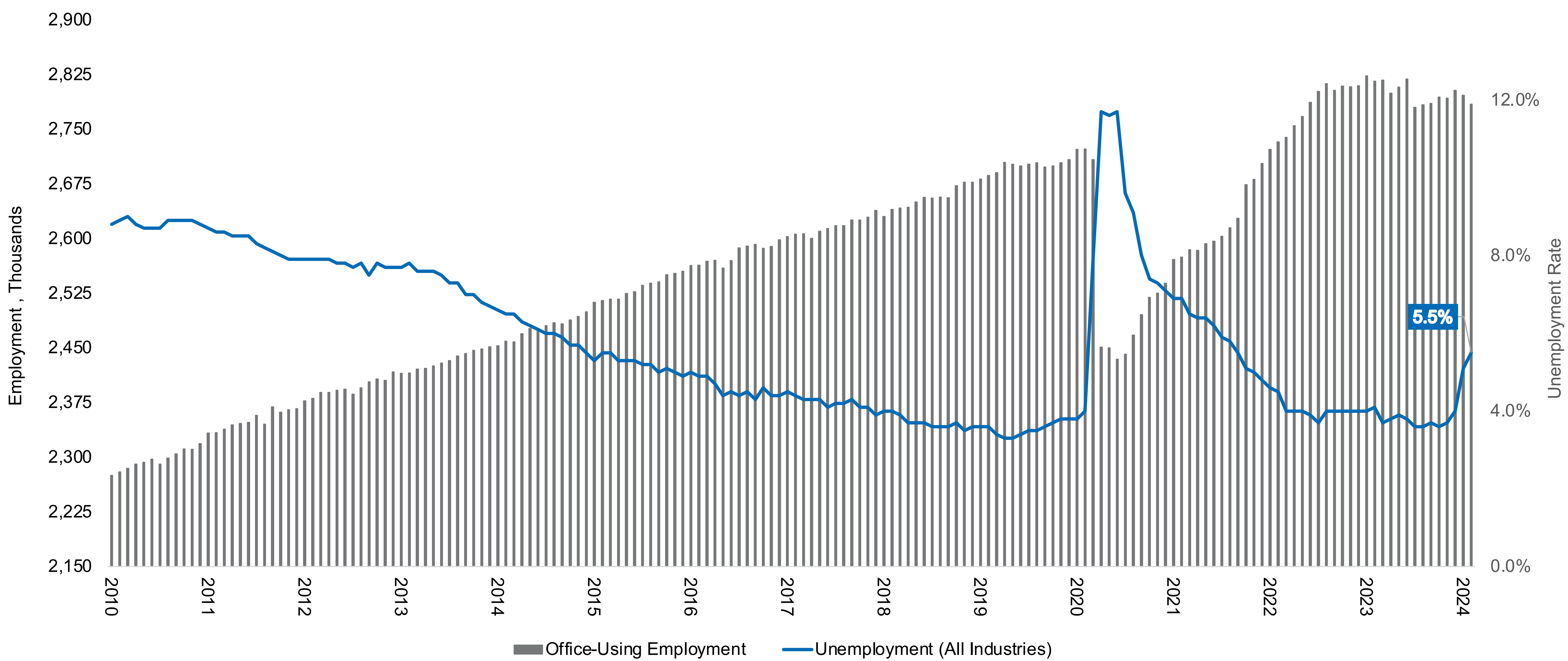


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area

Overall Office-Using Employment

Office-using employment in the Bridgeport-Stamford-Norwalk metro area remains steady and above pre-covid levels. Year-over-year statewide unemployment rate increases are due to a rise in individuals entering the job force, rather than an influx of jobless claims. Therefore, there is no correlation between unemployment increases and office-using employment as there was during the pandemic. Remote and hybrid work continues to compete with office-using employment, but rates have leveled off.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area
Note: February 2024 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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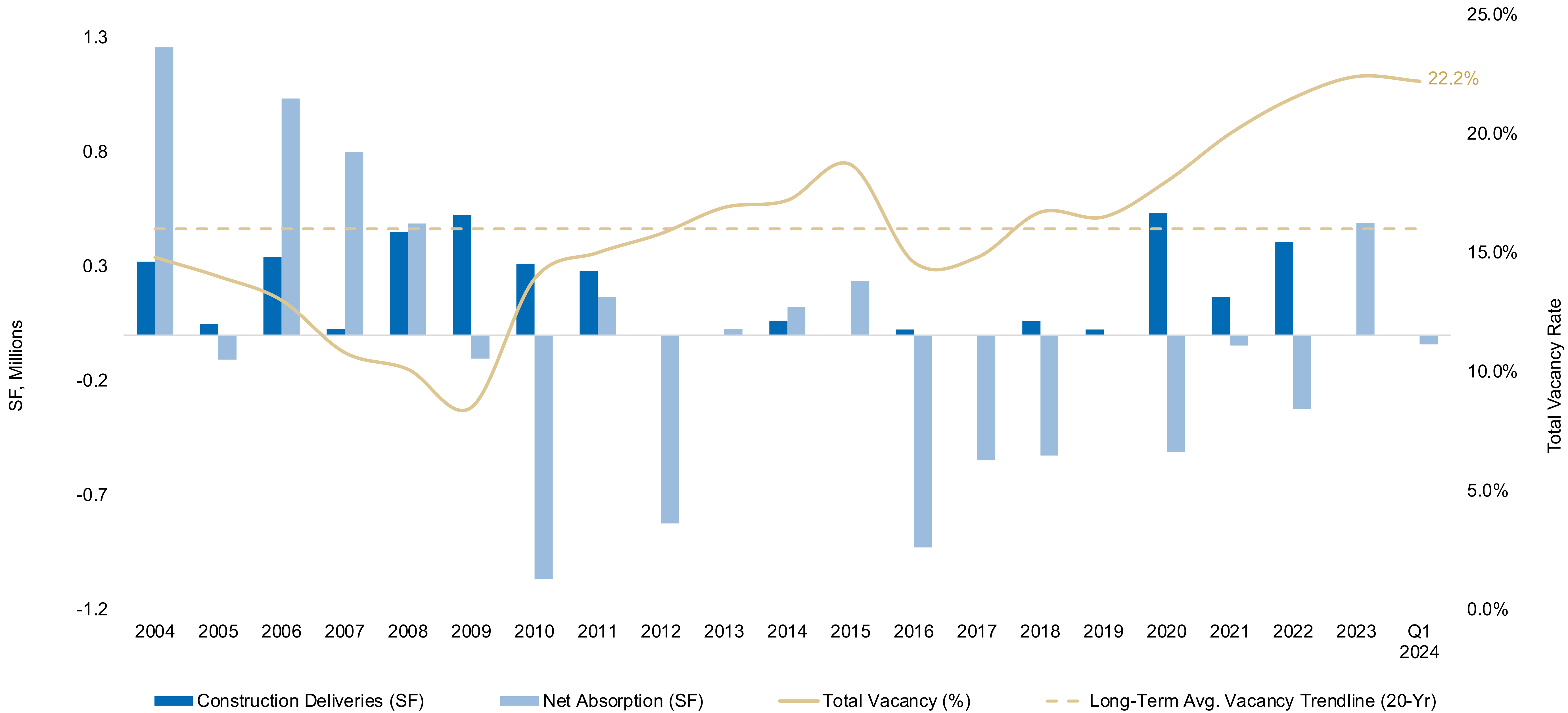
Leasing Market Fundamentals

Vacancy Remains Elevated as Office Market Continues to Navigate Demand Shifts

Net absorption ended the first quarter of 2024 with negative 41,283 SF, while vacancy rates remain elevated at 22.2%, 4.3 percentage points higher than the 10-year first quarter average vacancy level of 17.9%. The overall availability rate, which include both vacant properties and those that are occupied but available for lease, decreased to pre-pandemic levels to 25.9%.

Historical Construction Deliveries, Net Absorption, and Vacancy

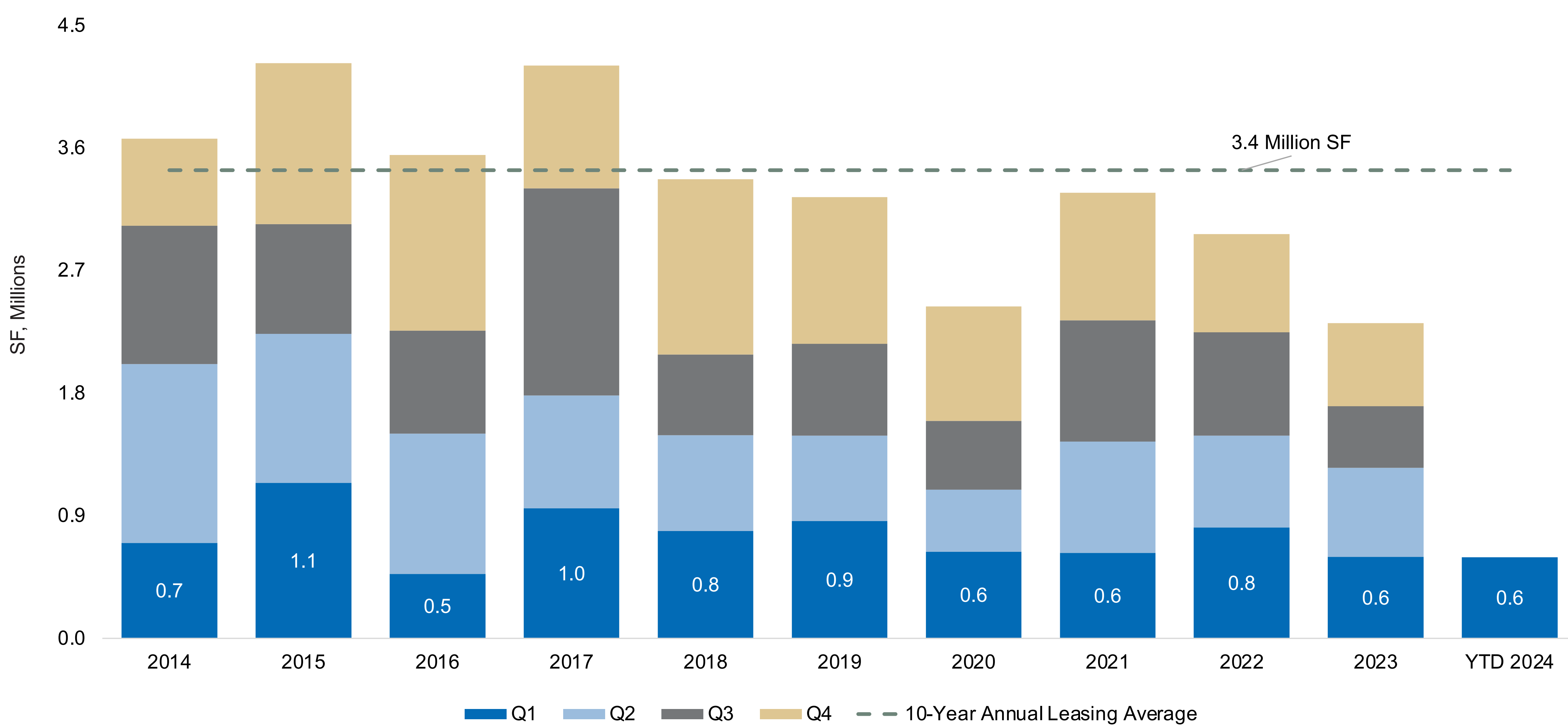


Source: Newmark Research

First Quarter Leasing Levels On Par with Previous Year; Smaller Deals on the Rise

Leasing activity totaled approximately 600,000 SF, mirroring first quarter 2023 levels but remaining 20% below the historical 10-year average leasing for first quarter. The number of new lease transactions is higher this year, compared with the previous year and from a historical standpoint. Deals are smaller in square footage, which explains why total leasing volumes remain well below average.

Total Leasing Activity (msf)

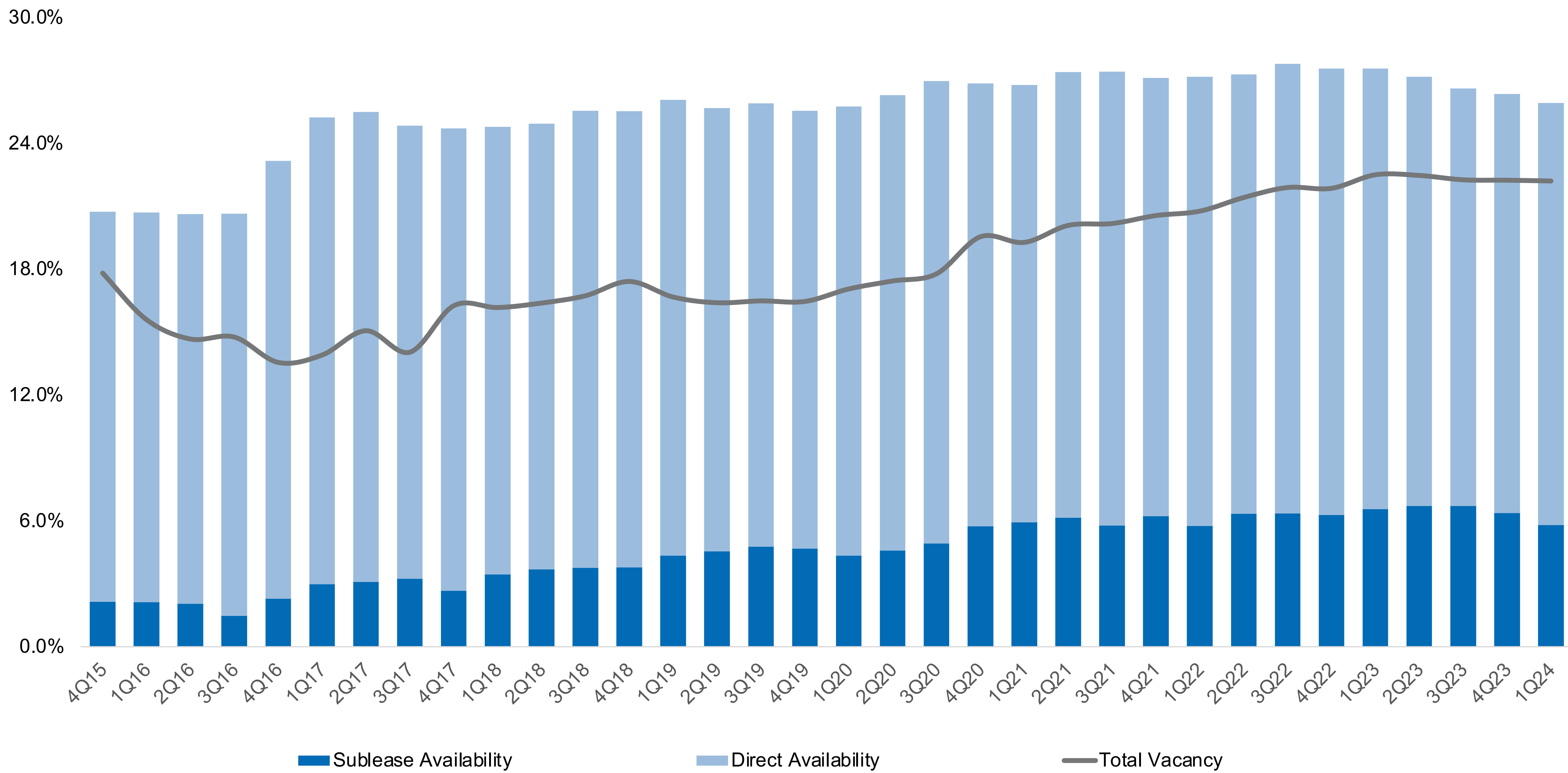


Source: Newmark Research

Availability, including Sublease Space Edges Down from Peak

Sublease space made up 5.8% of the total availability in the first quarter, decreasing from the peak of 6.7% a year ago. The direct availability rate has also decreased from the 21.4% peak in 2022 to the current 20.1%. Although there is less available space, the total vacancy rate remained flat as terms for those availabilities expire or spaces become vacant.

Available Space as Percent of Overall Market

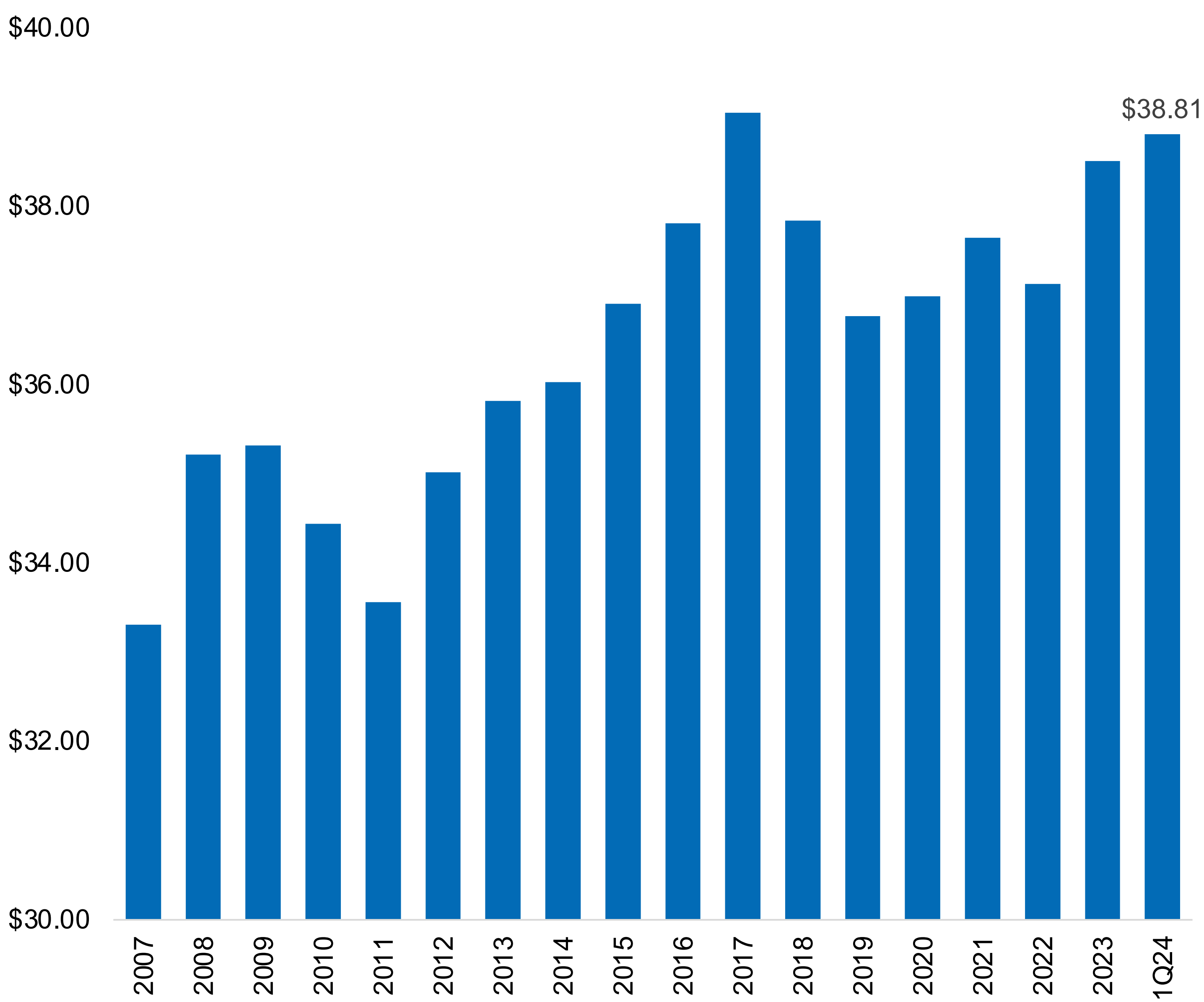


Source: Newmark Research

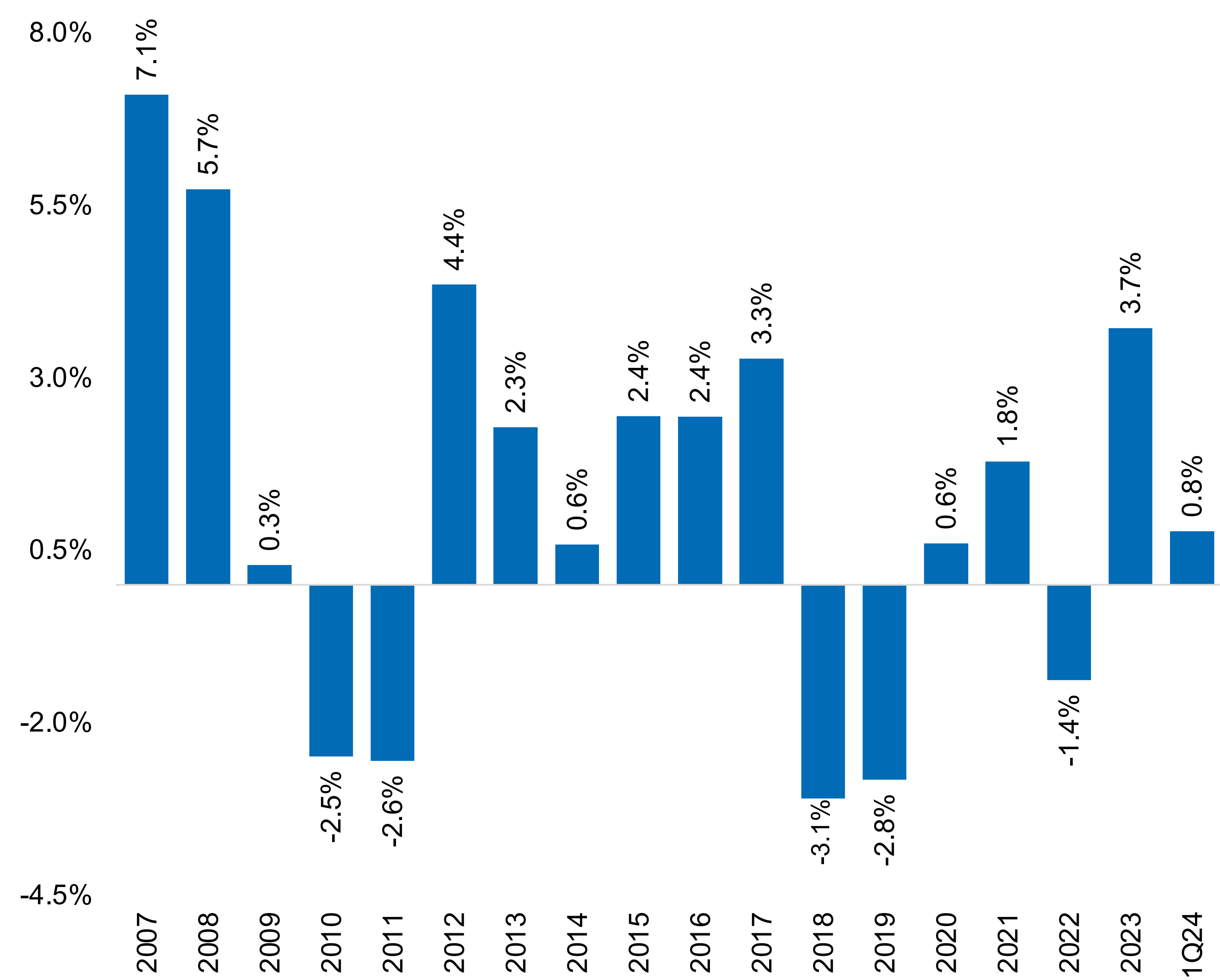
Average Asking Rents Hold Firm, Despite Market Conditions

Landlords have maintained their footing when it comes to face rents, likely to justify large concession packages. The direct average asking rent ended at $38.81/SF, 3.6% above the historical average. High quality assets in top markets continue to fetch premium rates. In addition, a few buildings with large blocks of space that are undergoing extensive renovations, such as 400 Atlantic Street in Stamford, or buildings that have announced repositioning plans have seen price adjustments anywhere from 10% to 20%.

Office Average Asking Rent, $/SF/Month, FS



Year-over-Year Asking Rent Growth Rate

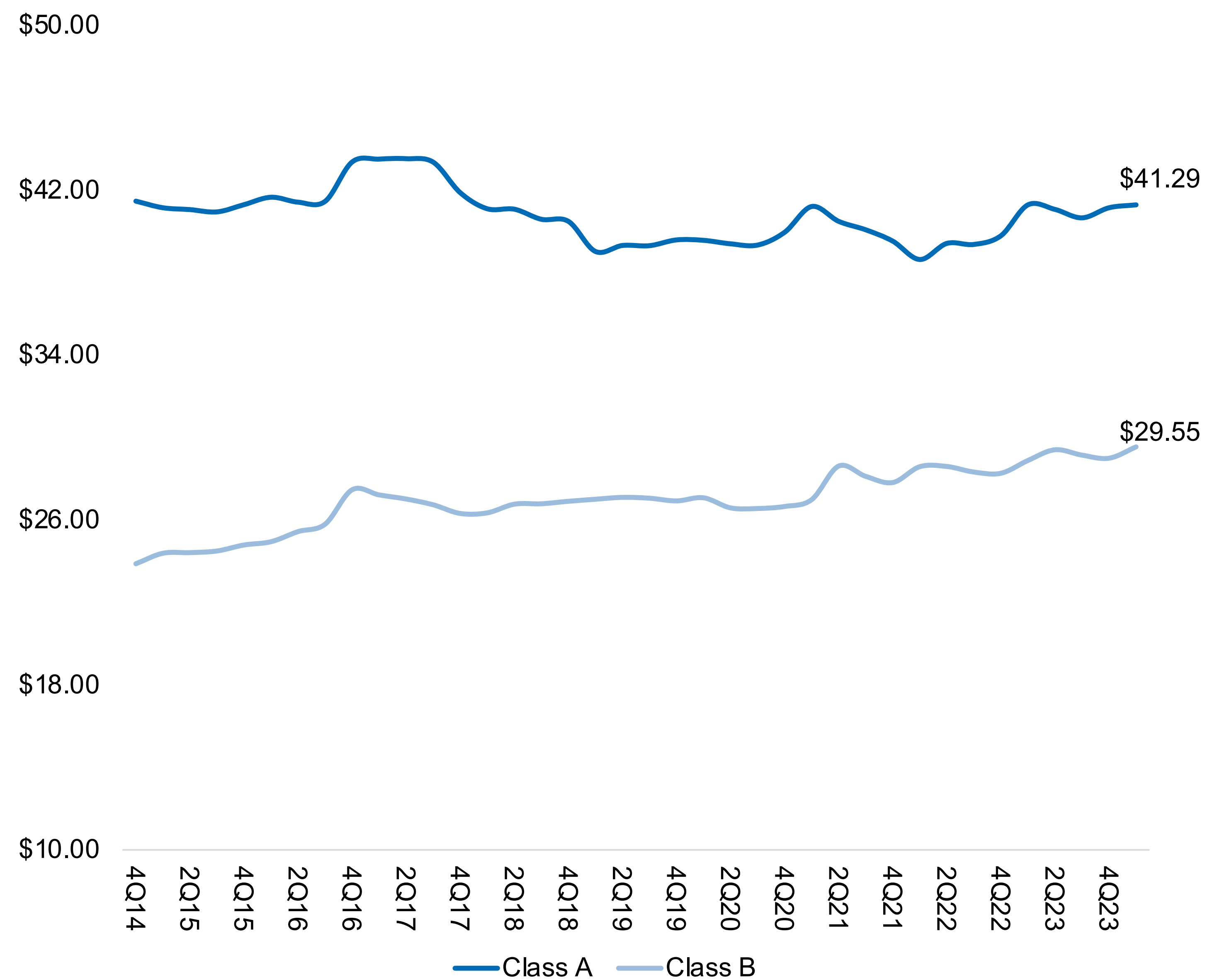


Source: Newmark Research

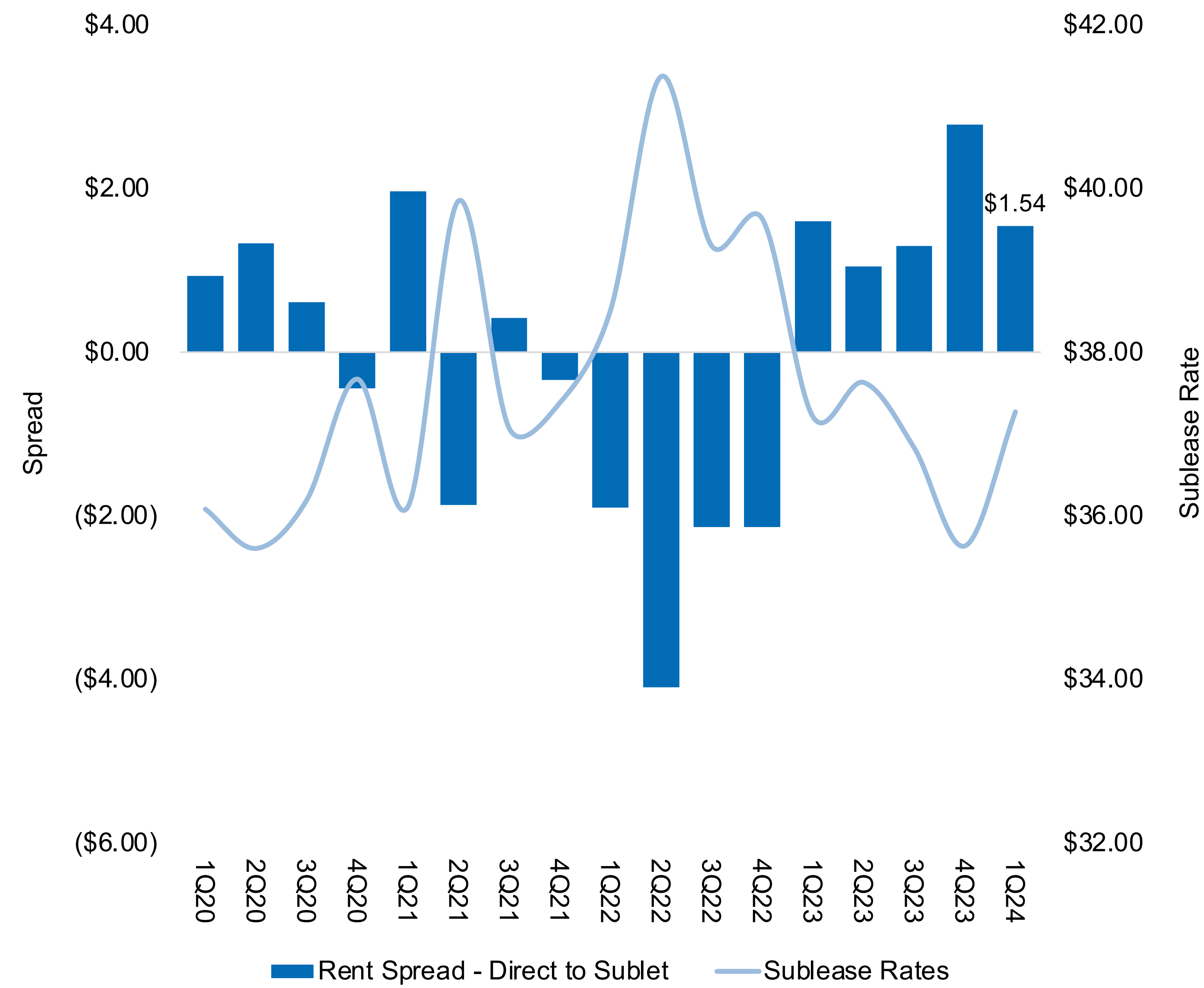
Rent Spread Between Direct and Sublease Space Dropped from Previous Quarter Peak

The direct average asking rate for Class B product increased by 2.3% year over year, from $28.89/SF to $29.55/SF, while the Class A average remained stable at $41.29/SF. The rent spread between sublease and direct offerings decreased to $1.54/SF, from the previous quarter peak of $2.78/SF. This was mainly due to higher-priced direct space being absorbed, mainly at 400 Atlantic Street, which leveled the spread.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Renewal Activity Drove Demand; Leasing Limited to Smaller Deals

Renewal activity increased by 20%, from 250,000 SF in the first quarter of 2023 to nearly 300,000 SF this quarter. The Greenwich market saw several relatively sizable renewals take place this quarter, including the top quarter deal by Stone Point Capital. Although downsizings lessened this quarter, the volume of new leases declined by 15.5% year over year to 285,000 SF. The largest new deal this quarter was a 19,100 SF lease signed by Liberation Programs at 15 Commerce Road in Stamford, followed by Shipman & Goodwin's 16,863-SF new lease at 400 Atlantic Street.

Notable Q1 2024 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Stone Point Capital	20 Horseneck Lane	Greenwich CBD	Renewal	43,368
Ascot Group	200 Elm Street	Stamford CBD	Renewal	23,944
McKinsey & Company	100 Washington Boulevard	Stamford CBD	Renewal	23,919
Stark Office Suites	777 West Putnam Avenue	Greenwich Non-CBD	Renewal, Expansion	23,311
cxLoyalty Services	6 High Ridge Park	Stamford Non-CBD	Short-term Lease	22,408
Lightbox	6 Armstrong Road	Shelton – Eastern	New Lease	21,114

Source: Newmark Research

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Fairfield County Office Submarket Map

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