3Q24

Fairfield County Office Market Overview

Market Observations

Economy

- After a strong start to 2024 with consecutive monthly gains in payroll employment, the state of Connecticut reported a 2,200-position decline in August. The loss repeats a pattern seen in recent years of strong job growth in the first half of the year followed by slower job growth in the second.
- Statewide, two of the ten major industry sectors added positions in August 2024, while seven declined and one remained unchanged. Growth was led by private education and health services (+1,200, or 0.3%) and information (+600, or 2.0%). Job cuts were recorded in professional and business services (-1,300, or -0.6%), manufacturing (-700, or -0.4%), leisure and hospitality (-500, or -0.3%), trade, transportation, and utilities (-500, or -0.2%), construction and mining (-300, or -0.5%), and financial activities (-100, or -0.1%). Government jobs remained unchanged.
- The Fairfield County unemployment rate declined by 50 basis points year-over-year to 3.5% in August. This is lower than the 4.4% level recorded in the U.S. and slightly higher than 3.4% in Connecticut.

Major Transactions

- Indeed, a recruiting firm which has been one of the county's largest tenants in the market for the past five years, finally signed a deal to relocate its headquarters to 200 Elm Street and 695 East Main Street. They will vacate roughly 200,000 SF within the RFR portfolio and move into a new 124,180 SF space.
- Investment sales activity saw an uptick in the first half of 2024, with approximately 300,000 SF traded for a combined $100 million and an average of $335/SF. By comparison, only 100,000 SF of office product exchanged hands in the first half of 2023 for a combined $9.7 million and an average of $108/SF. In the third quarter, however, only one sale occurred in the Stamford CBD market; 400 Main Street, a 33,500 SF office building slated for residential conversion.
- Bucking the trend of adaptive re-use of long-vacant office buildings throughout the county, the Greenwich market is experiencing organic growth that is impacting several Downtown Class B and C assets. A major Greenwich occupier purchased an acre of land near their headquarters with five properties, including 537 and 545 Steamboat Road. They plan to build a new 40,000-SF office building for their own use.

Leasing Market Fundamentals

- After trending downward for six consecutive quarters, the overall availability rate moved back to 27.9%, up from 26.3% at the start of 2024. The direct vacancy rate hit a new record high of 19.3%, attributed to expiring leases and downsizing. Although several buildings slated for redevelopment have been removed from the office inventory, large occupiers such as Indeed, Henkel and Philips have reduced footprints this quarter, adding new supply to the market.
- More than 900,000 SF of leases were transacted in the third quarter, bringing the YTD 2024 leasing volumes to nearly 2.5 million square feet. But while large deals buoyed total leasing volumes, they were a double edge sword, as some reduced their original footprints by half. Year-to-date net absorption therefore ended with negative 650,471 SF.
- With more leasing activity focused on higher-priced product and leaving behind availabilities with a lower price tag, the Class A direct average asking rate moved down slightly to $40.85/SF compared to $41.06/SF in the first quarter of the year, while Class B rents remained stable at $29.31/SF.

Outlook

- Recently observed trends, both nationally and locally, are likely to continue throughout the remainder of the year. These include continued flight-to-quality into smaller footprints but also large tenants' tendency toward renewals with longer lease terms versus relocations.
- On a more macro note, economic conditions may point to a more supportive environment as Fed officials cut rates by 50 basis points for the first time in four years, citing increased confidence that inflation is moving down toward their 2% goal. That said, the commercial real estate market still faces some headwinds, particularly for assets with loan maturities on the horizon. Capital markets activity will likely increase as owners look to refinance or dispose of assets that no longer meet their investment criteria. This may also lead to more conversions of office properties that are deemed un-leasable in today's market.

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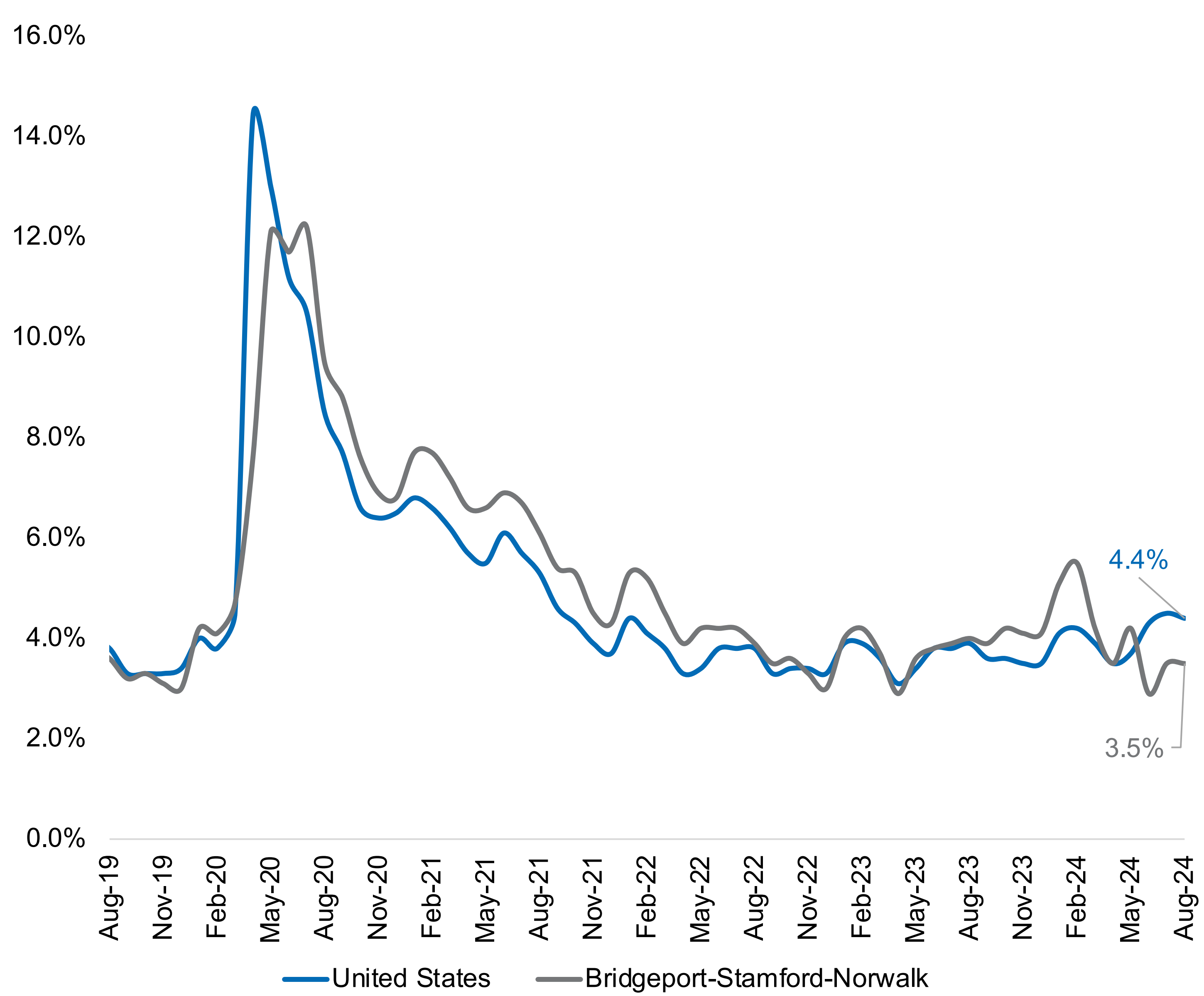
Economy

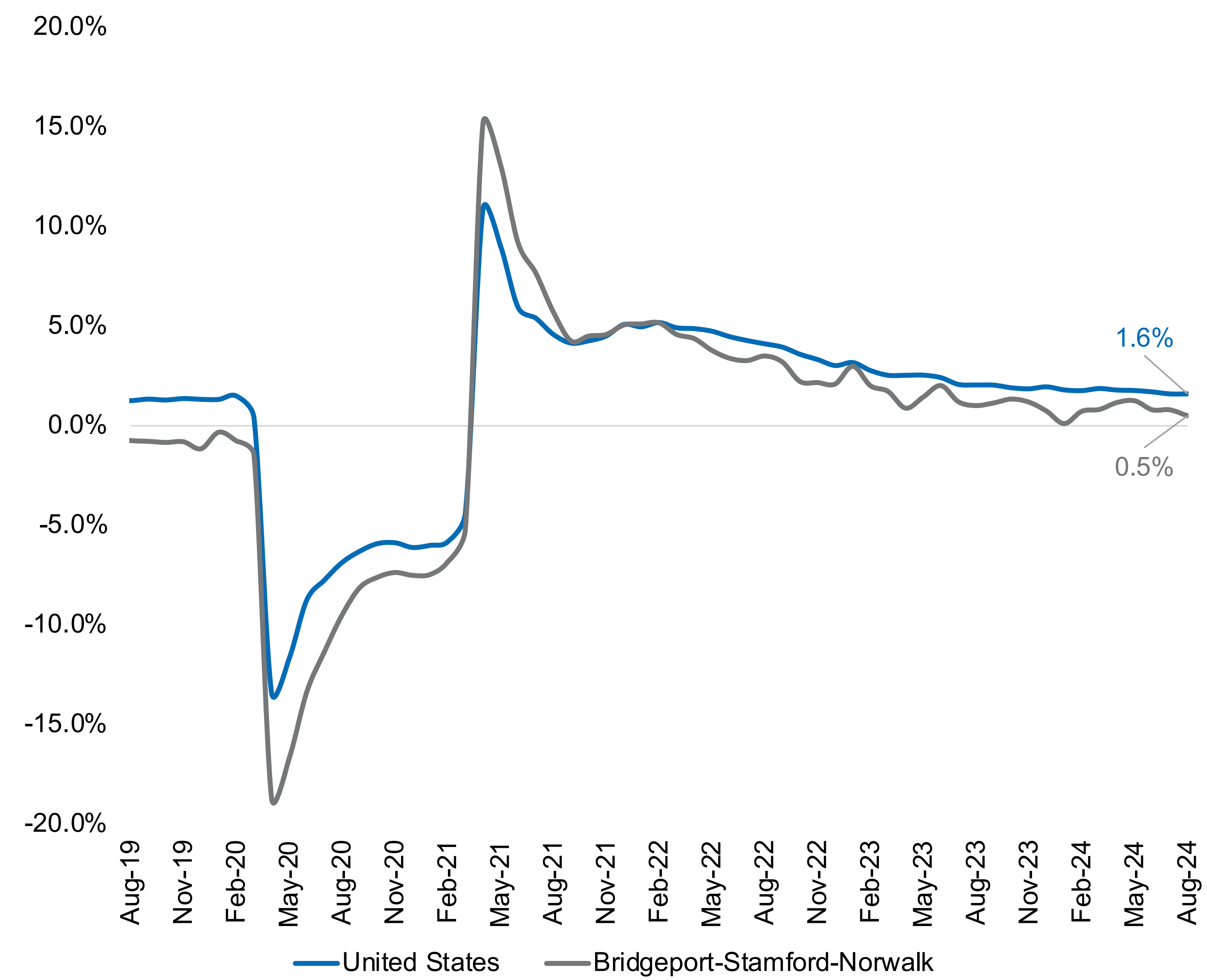
Metro Employment Trends in Fairfield County

August unemployment rates ended at 4.4% in the U.S., 3.5% in Fairfield County, and 3.4% in the state of Connecticut. The unemployment rate in the county saw a year-over-year decrease from 4.0% in August 2023. The state of Connecticut lost a total of 2,200 jobs in August, down 0.1% month over month, but still 0.7% higher year-over-year. Nonfarm payroll employment in the Bridgeport-Stamford-Norwalk metro area had a year-over-year increase of 0.5% in August.

Unemployment Rate, Non-Seasonally Adjusted



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

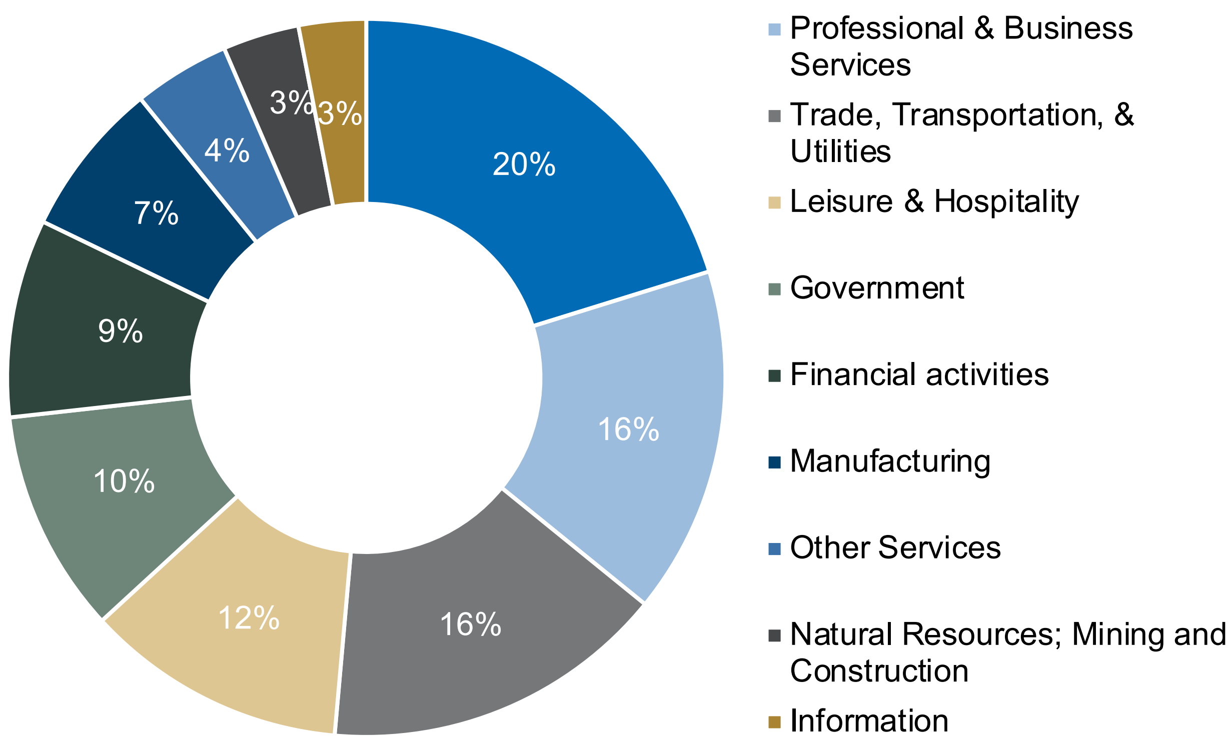


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area

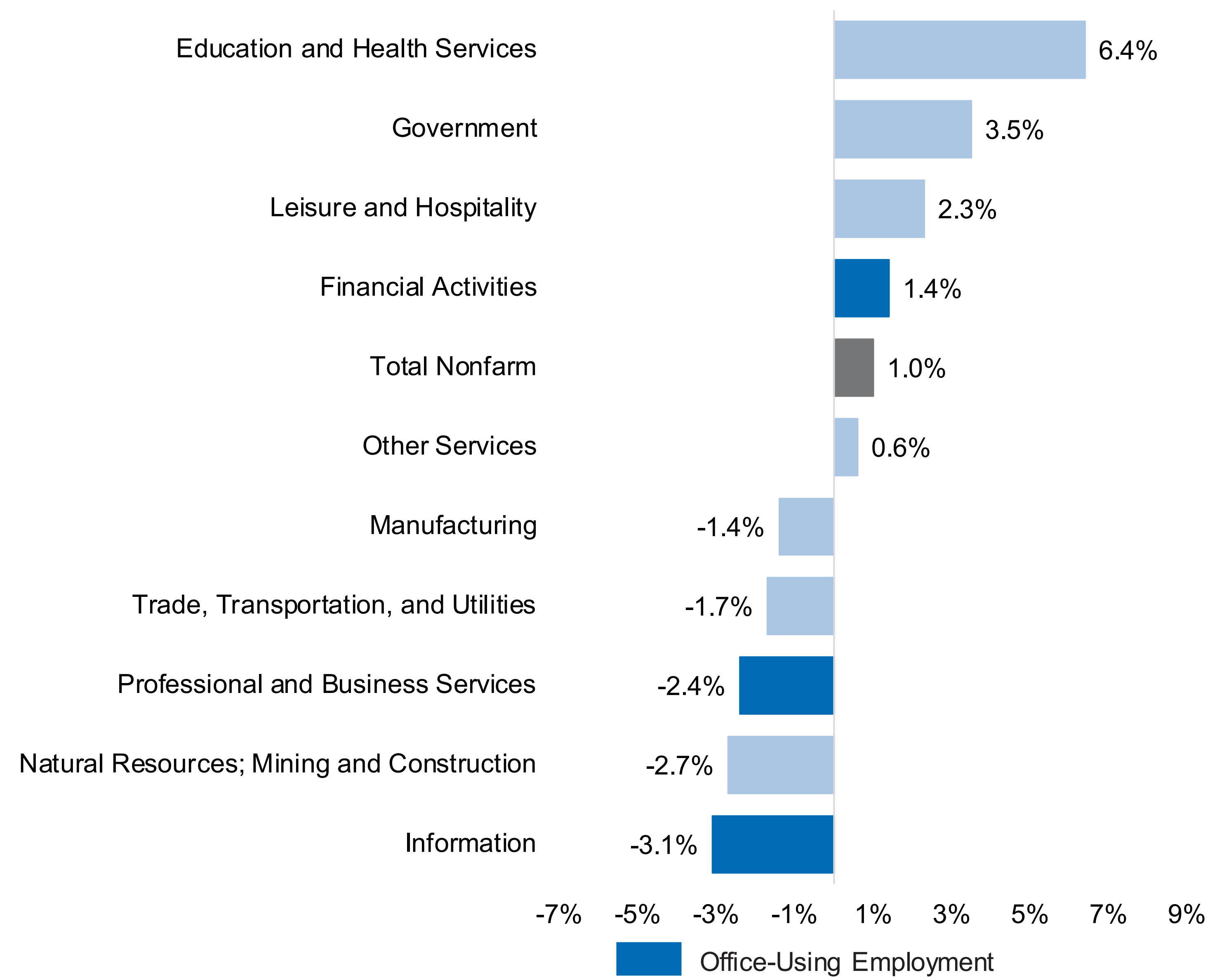
Employment and Employment Growth by Industry

Statewide, only two industry sectors added jobs in August 2024 while seven recorded losses. Growth was led by private education and health services (+1,200, or 0.3%) and information (+600, or 2.0%). Job cuts were recorded in professional and business services (-1,300, or -0.6%), manufacturing (-700, or -0.4%), leisure and hospitality (-500, or -0.3%), trade, transportation, and utilities (-500, or -0.2%), construction and mining (-300, or -0.5%), and financial activities (-100, or -0.1%). Government jobs remained unchanged. Within Fairfield County, job gains were recorded in education and healthcare, government, leisure and hospitality, financial activities, and other services.

Employment by Industry, August 2024



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

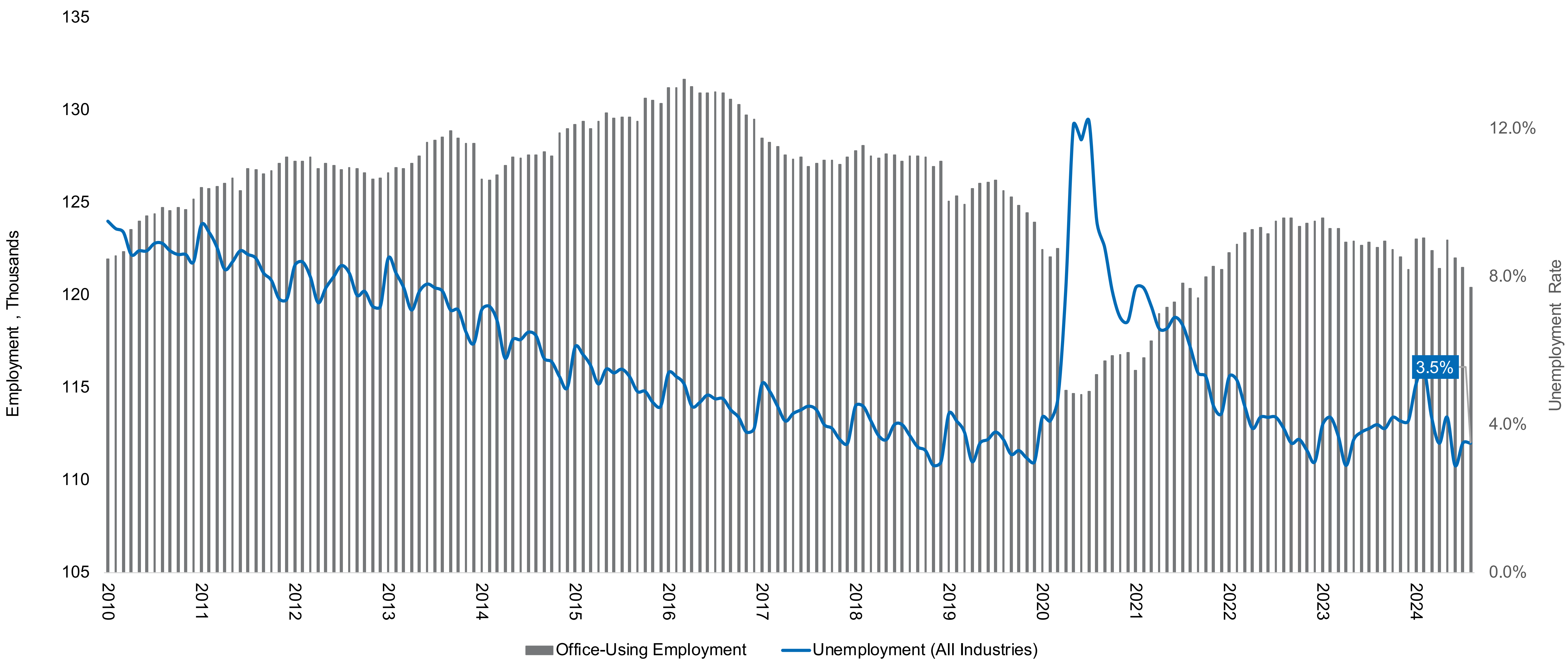


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area

Overall Office-Using Employment Trends

Office using employment decreased by 0.9% month over month, ending at 120,425 positions in August compared to 121,482 positions in July. Overall office using employment in the county is down by 1.8% year-over-year, compared to 122,571 positions in August 2023. Out of the three office using sectors, financial services employment rose by 1.4%, while professional and business services and the information sector decreased by 2.4% and 3.1%, respectively.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area
Note: August 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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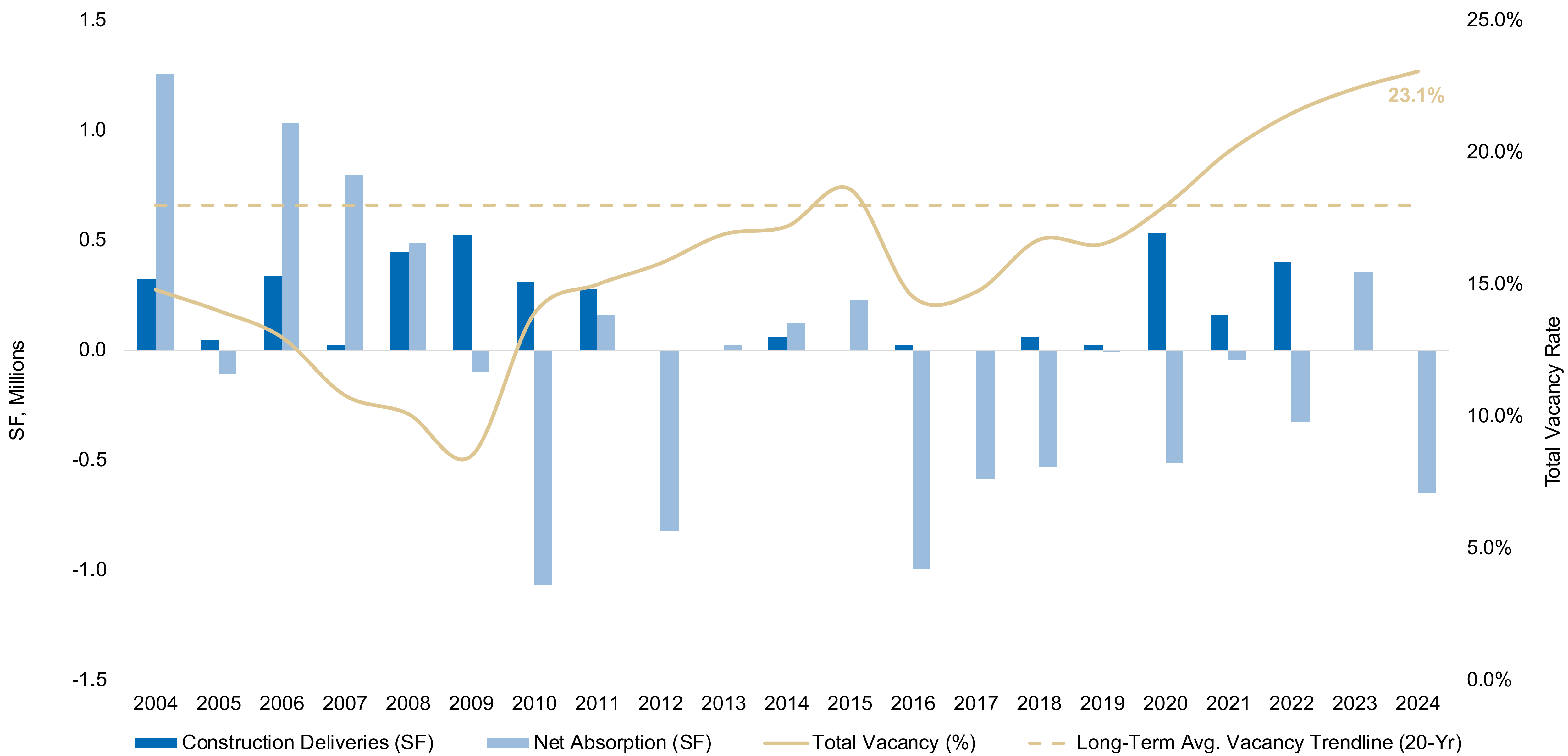
Leasing Market Fundamentals

Vacancy Remains Elevated as Office Market Continues to Navigate Demand Shifts

Net absorption ended the third quarter of 2024 with negative 351,740 SF, while average year-to-date vacancy ended at 23.1% and total vacancy for the quarter remain elevated at 23.6%, a new historical high for the county. This level stands 5.6 percentage points higher than the 20-year historical mark of 18.0%. The overall availability rate, which includes both vacant properties and those that are still occupied but available for lease, ended at 27.9%, 1.3 percentage points higher than the 26.6% level recorded a year ago.

Historical Construction Deliveries, Net Absorption, and Vacancy

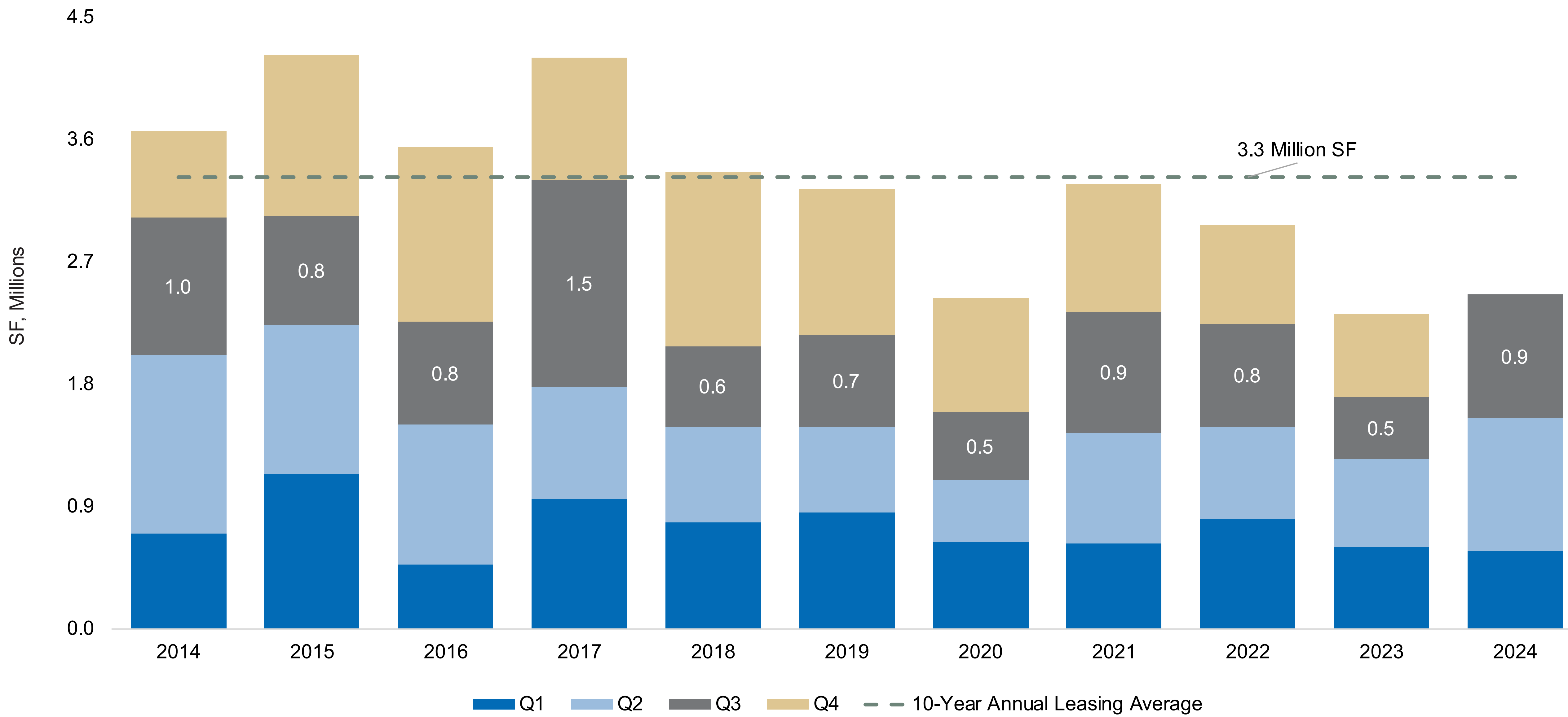


Source: Newmark Research

Renewal Activity by Large Firms Drive Third Quarter Leasing Activity

More than 900,000 SF of leases were transacted during the third quarter of 2024, elevating year to date levels to a total of nearly 2.5 million SF and exceeding last years total of 2.3 million SF. Although in recent years smaller deals have kept leasing volumes well below average, renewal activity by large tenants including Indeed, Diageo, and EMCOR this quarter boosted year-to-date levels. Leasing more than doubled year-over-year, compared to 450,000 SF in the third quarter of 2023.

Total Leasing Activity (msf)

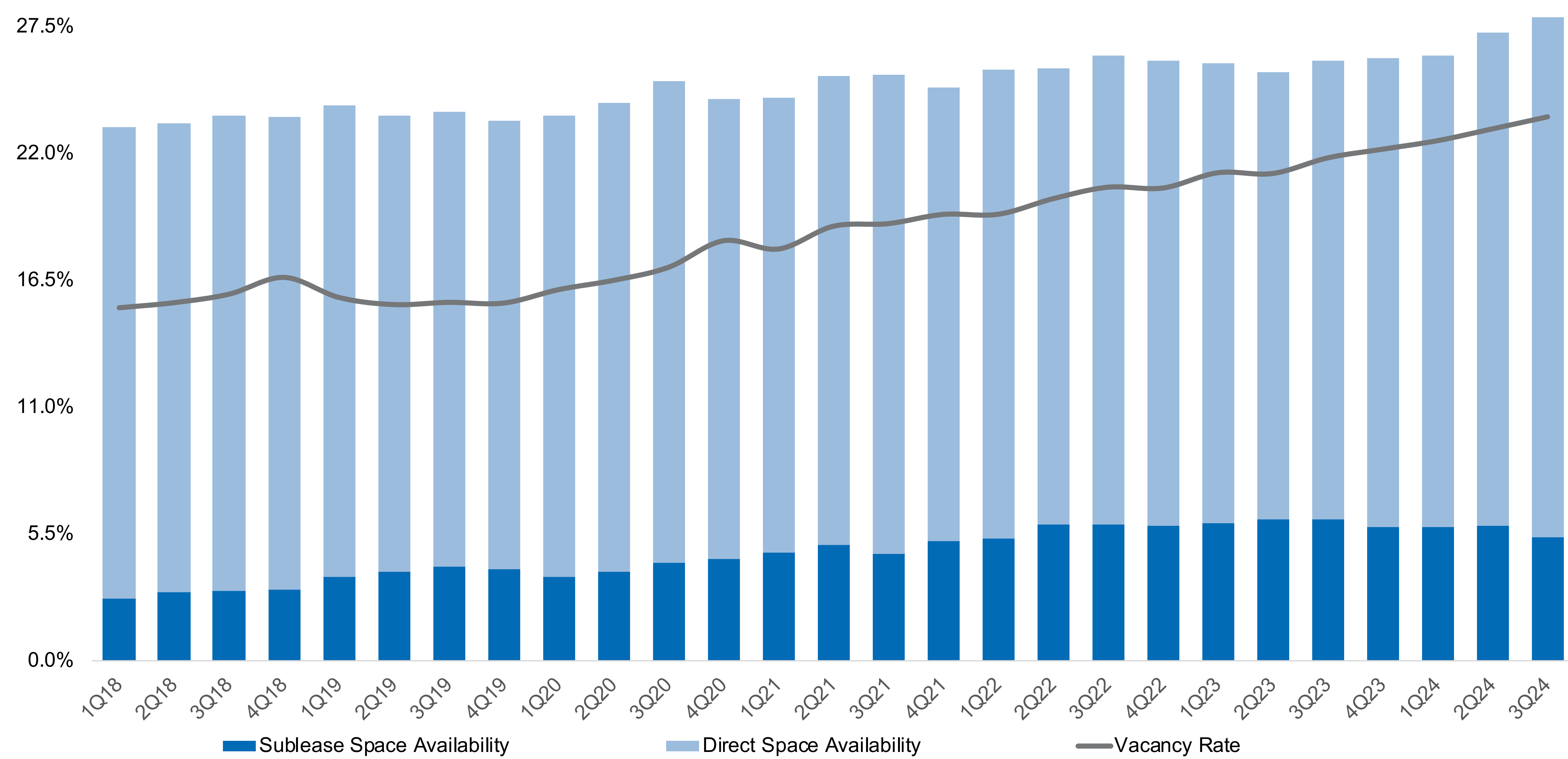


Source: Newmark Research

Availability Rates Increase in Q3; Sublease Rates Decrease

Despite an increase in leasing activity this quarter, both vacancy and availability rates moved upwards as excess space from tenants rightsizing were added to market. The direct availability rate increased by 2.7 percent points since last year, to 22.6%. At 5.3%, the sublease availability rate decreased by half of a percentage point from the previous quarter, but lower than the 6.2% level recorded in the prior year.

Available Space as Percent of Overall Market

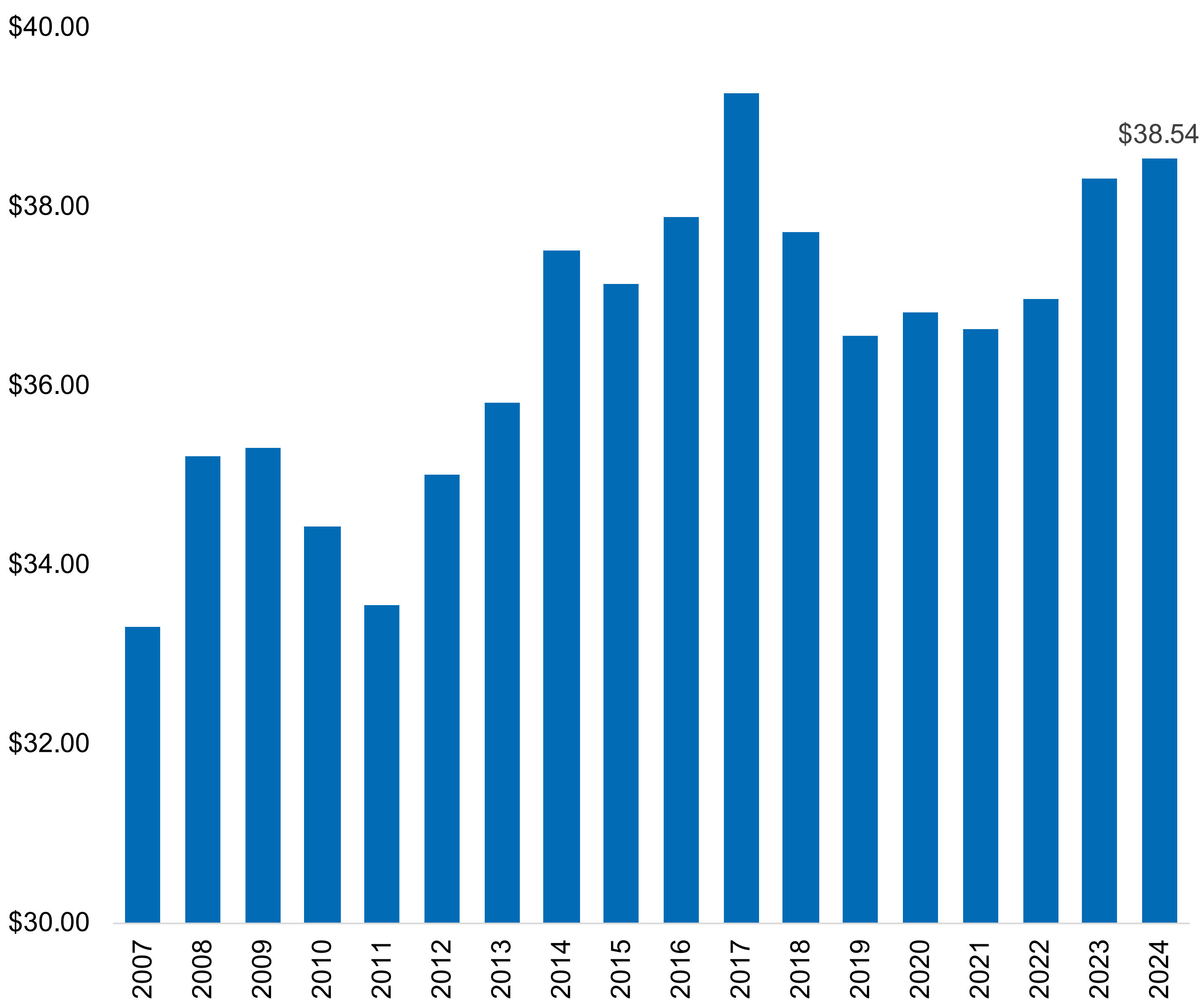


Source: Newmark Research

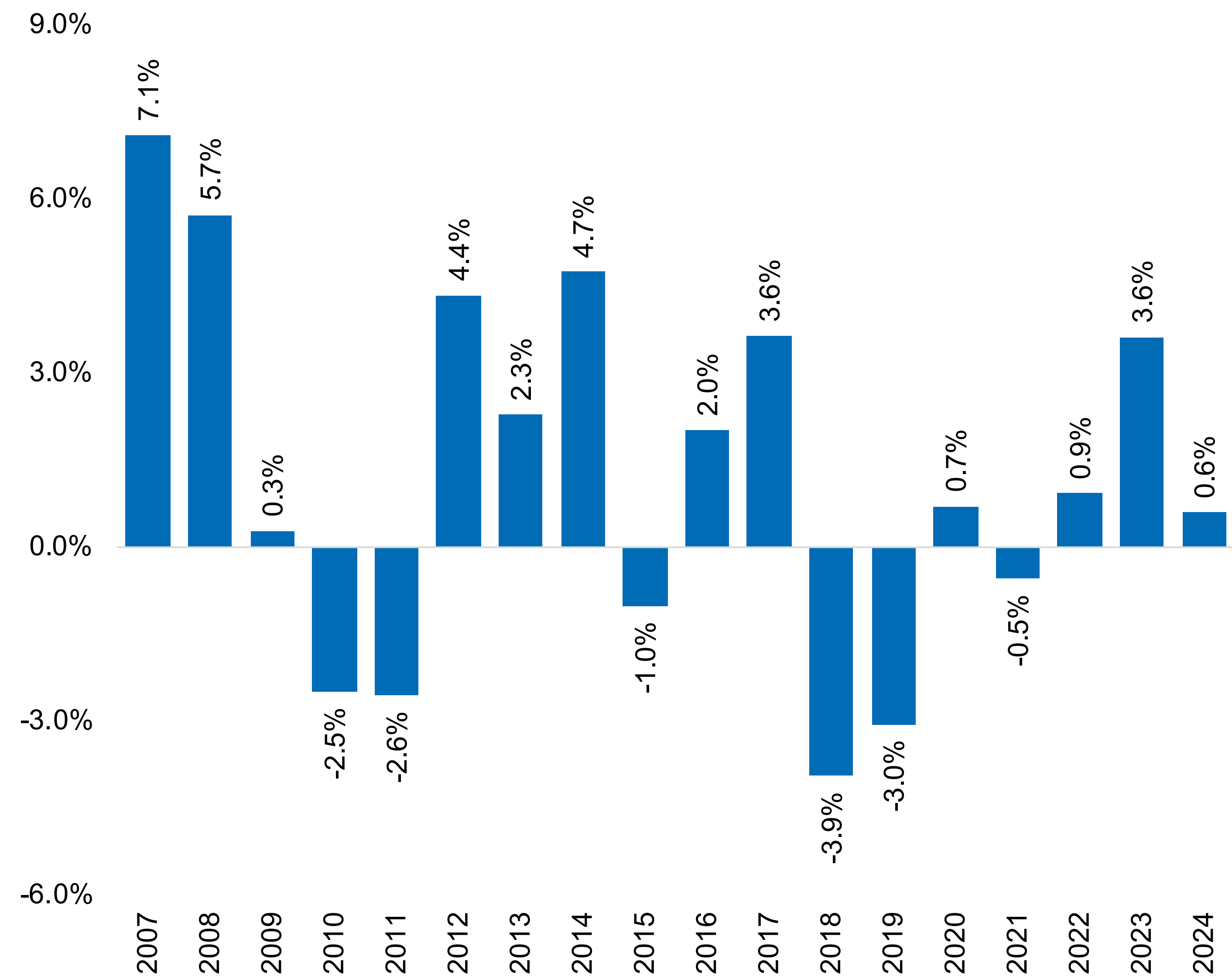
Landlords with High Quality Assets Remain Firm on Face Rents

With tenants taking up higher quality space and leaving behind lower-priced assets that are added to the market, the direct average asking rent decreased slightly in the third quarter to $38.55/SF, from $38.68/SF in the first quarter. However, with high construction costs and to justify large concession packages, landlords remain firm on face rents, and those with high quality assets continue to fetch premium rents. The year-to-date average asking rent ended at $38.54/SF.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

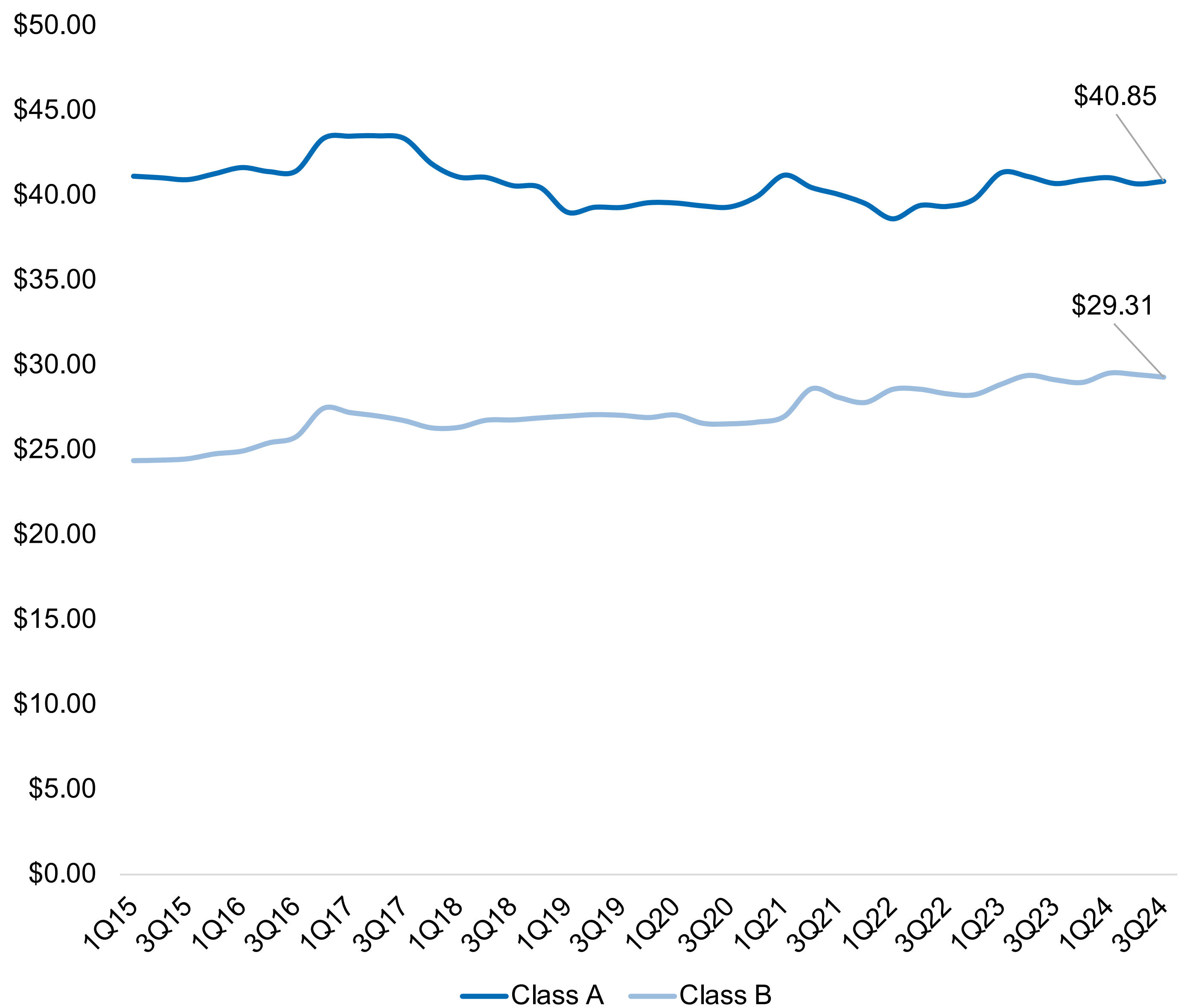


Source: Newmark Research

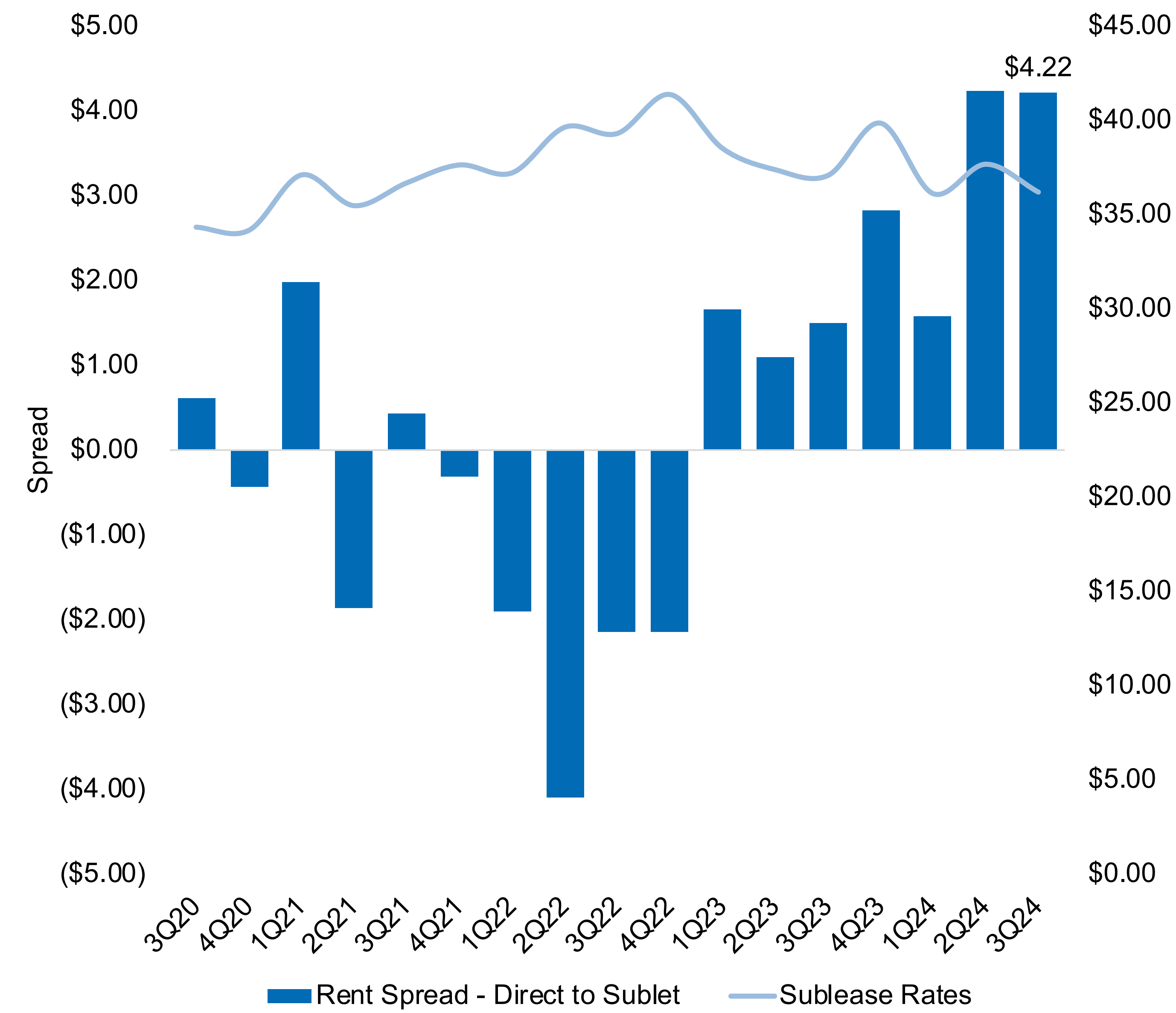
Rent Spread between Class A and B buildings Has Narrowed Over Time

The Class A direct average asking rate moved down slightly to $40.85/SF compared to $41.06/SF in the first quarter of the year, while Class B rents remained stable at $29.31/SF. Sublease asking rates saw a decrease of 3.9%, from $37.67/SF last quarter to $36.19/SF in the third quarter. The rent spread from direct to sublease nearly tripled year-over-year, from $1.50/SF in the third quarter of 2023 to $4.22/SF this quarter.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Major Deals Resurface and Boost Total Leasing Volumes but Lead to Decreased Occupancy

There were eight deals signed for more than 50,000 SF each year to date, totaling 690,000 SF. This was a significant increase from an average of three to four deals in that size category, which typically amount to 400,000 SF. Despite some of these deals representing expansions, both deals signed at 200 Elm Street, Indeed's and Henkel's, involved shedding a combined 125,000 SF. Other firms shedding excess space this year included Xerox, Philips North America, Commonfund and McKinsey.

Notable YTD 2024 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Indeed, Inc.	200 Elm Street & 695 East Main Street	Stamford CBD	New Lease	124,180
Local move out of approximately 200,000 SF, a downsize of 37% within the market				
Philip Morris International (PMI)	400 Atlantic Street	Stamford CBD/Train	New Lease	91,509
Tenant extended original space of 71,484 SF and signed a long-term deal on a 20,025 SF expansion				
Henkel of America	200 Elm Street	Stamford CBD	Renewal	84,046
Renewal and downsize of approximately 50,000 SF				
HomeServe	45 Glover Avenue	Norwalk/Route 7	Sublease	66,107
Local move and expansion of 10,000 SF				
The Stamford Hospital	260 Long Ridge Road	Stamford Non-CBD/North Merritt Parkway	New Lease	65,667
This new location, which is estimated to open to the public in late 2025, will serve to expand the hospital's ambulatory care network				
Diageo	200 Elm Street	Stamford CBD	Renewal	57,551
Early renewal for London-based beverage brand				
EMCOR Group	301 Merritt 7	Norwalk – Eastern	Renewal	32,500

Source: Newmark Research

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Please reach out to your
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Fairfield County Office Submarket Map

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