

3Q23

# Fairfield County Office Market Overview

NEWMARK



# Market Observations

## Economy

- While national issues such as higher rates and inflation remain a concern, the state's economy continues to show resilience, as Connecticut employers added an estimated 2,100 jobs in August 2023. The state's unemployment rate of 3.6%, which is at a four-year low, stood below the national average of 3.8%.
- The private sector has fully recovered from the COVID-19 shutdown, gaining 267,700 jobs since April 2020, 1,700 more than the 266,000 jobs lost during the pandemic.
- Job gains have been balanced across industry sectors, but employers are still constrained by the tight labor market. The inability to hire may curtail growth and expansion year-over-year. The education sector led job gains statewide in the month of August.

## Major Developments

- Developer Building and Land Technology received approvals from the Stamford Zoning Board to move ahead with conversion plans for 1 Elmcroft Road, a 470,000-SF office building located at Stamford's Harbor Point area, into 256 apartment units. The building had been mostly empty for nearly a decade since Pitney Bowes vacated in 2014.
- Pre-leasing has begun at Darien's new "Corbin District" development. Westport-based Balance Point Capital signed a 15,000 SF lease at 1 Market Street. This is the first office lease signed at the project headed by Baywater Properties. Delivery for the new 95,000-SF development is slated for Q1 2026.
- Currently undertaking a major renovation project, the owners at 400 Atlantic Street in Stamford welcomed anchor tenant Gen Re earlier in the year, who inked a new, 97,359-SF deal. In total, George Comfort & Sons has signed roughly 200,000 SF since taking over the asset. Both 400 Atlantic Street and the Corbin District are representative of the market's outsized demand for highly-amenitized and renovated buildings.

## Leasing Market Fundamentals

- Fairfield County's overall availability rate ended at 26.6%, down from 27.2% in the second quarter and from 27.9% a year ago. Although availability rates for Class B product continued to rise, the removal of 430,000 SF of Class A space at 1 Elmcroft Road in Stamford drove the overall vacancy down.
- Demand lagged in the third quarter, registering less than 500,000 SF in 86 deals. Year-to-date leasing activity totaled 1.7 million SF, significantly lower than the 2.5-million SF, 10-year average. However, with the latest office conversion total net absorption levels saw an improvement, ending with positive 220,594 SF in the third quarter.
- The direct average asking rent grew by 1.4% over the past year to \$38.01/SF. Asking rents are likely to remain elevated in the quarters ahead due to owners facing higher tenant retention and acquisition costs, along with elevated operating expenses and taxes.

## Outlook

- The reversal of a decade-long low interest rate policy and the lingering impact of hybrid work arrangements continue to be the main headwinds affecting the office market. While the long-term effects remain to be seen, some cracks are forming particularly in the Class B market among the less desirable buildings and locations.
- Changes in the way we work and concentrated demand for highly-amenitized and renovated buildings also helped trigger a new cycle of adaptive reuse. The Stamford Zoning Board has also approved a proposal to replace 3 Landmark Square into a 31-story residential tower.
- Office investment activity continues to be shaken by fed policies. Year to date, approximately 400,000 SF of office properties have traded for total sales volume of \$80.7 million and a \$261 average price per SF, compared with 1.3 million SF in sales traded in the same period last year for \$450 million and an average of \$306/SF.

1. Economy
2. Leasing Market Fundamentals



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# Economy

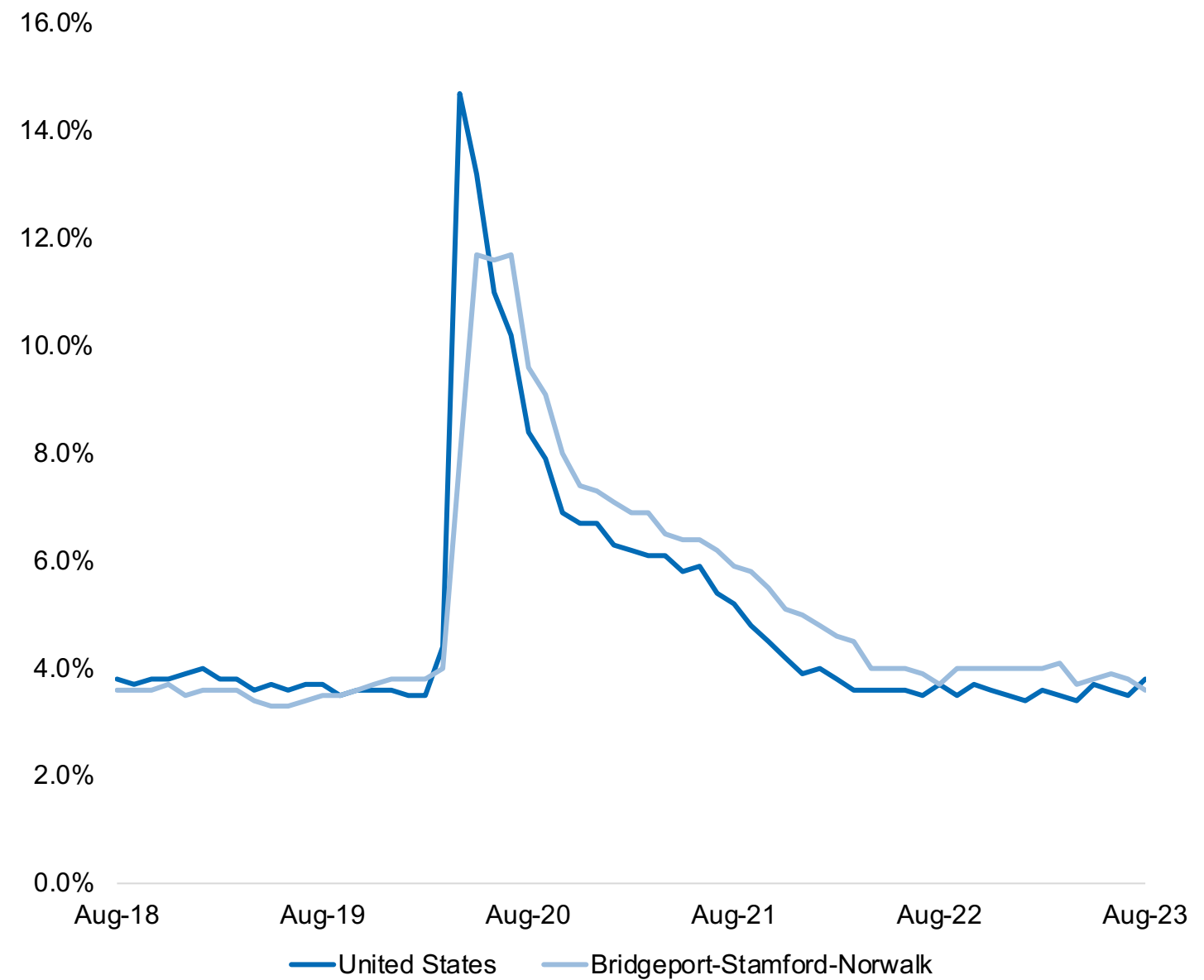




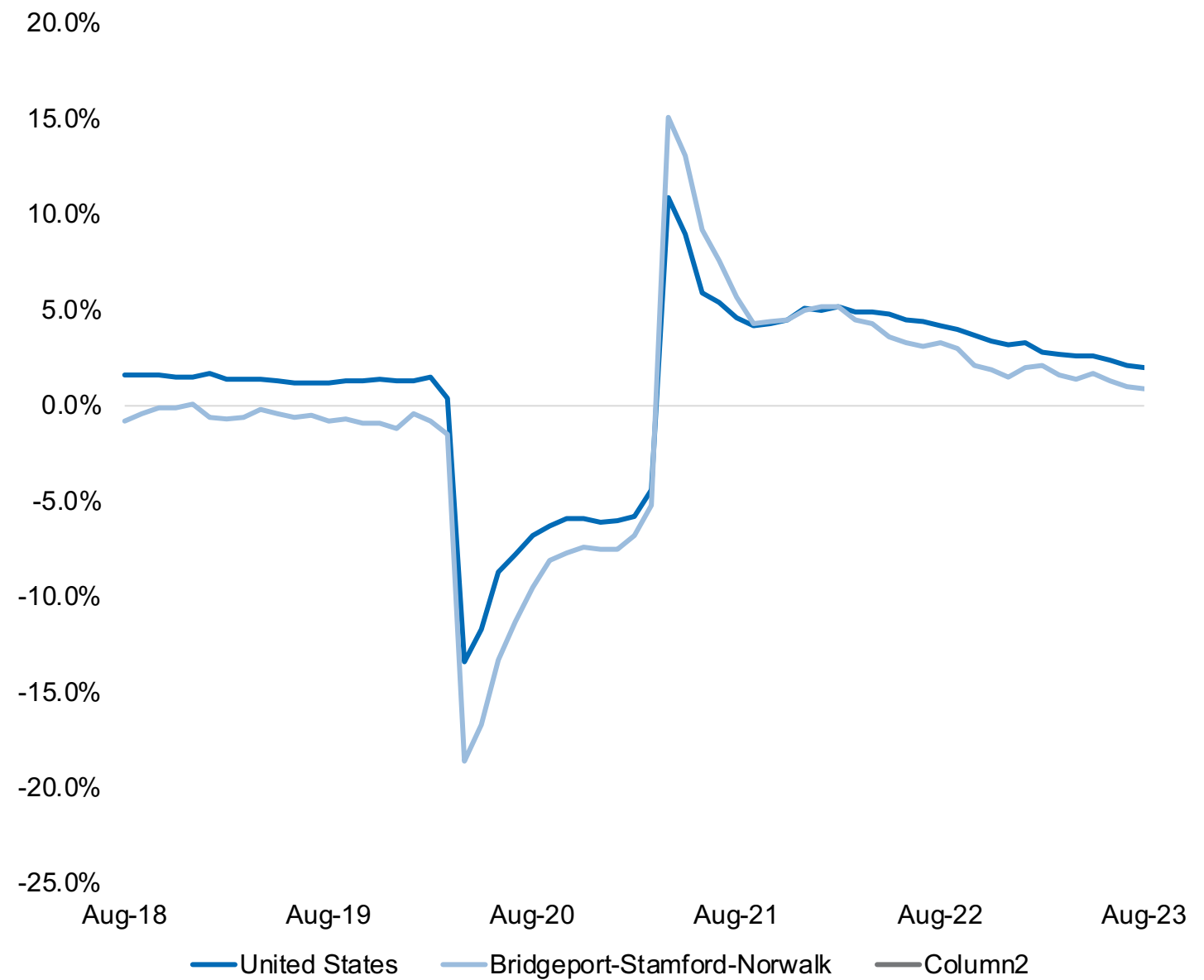
# Metro Employment Continues to Recover

The unemployment rate in the Fairfield County metro area in August ended at 3.6%, while the national average ended at 3.8%. The private sector gained 267,700 jobs since April 2020, 1,700 more than the 266,000 jobs lost during the pandemic. Nonfarm employment in the state rose to 1,693,300 positions in August 2023, up 2,100 jobs (0.1%) month over month, and 21,200 jobs (1.3%) year over year.

Unemployment Rate, Seasonally Adjusted



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

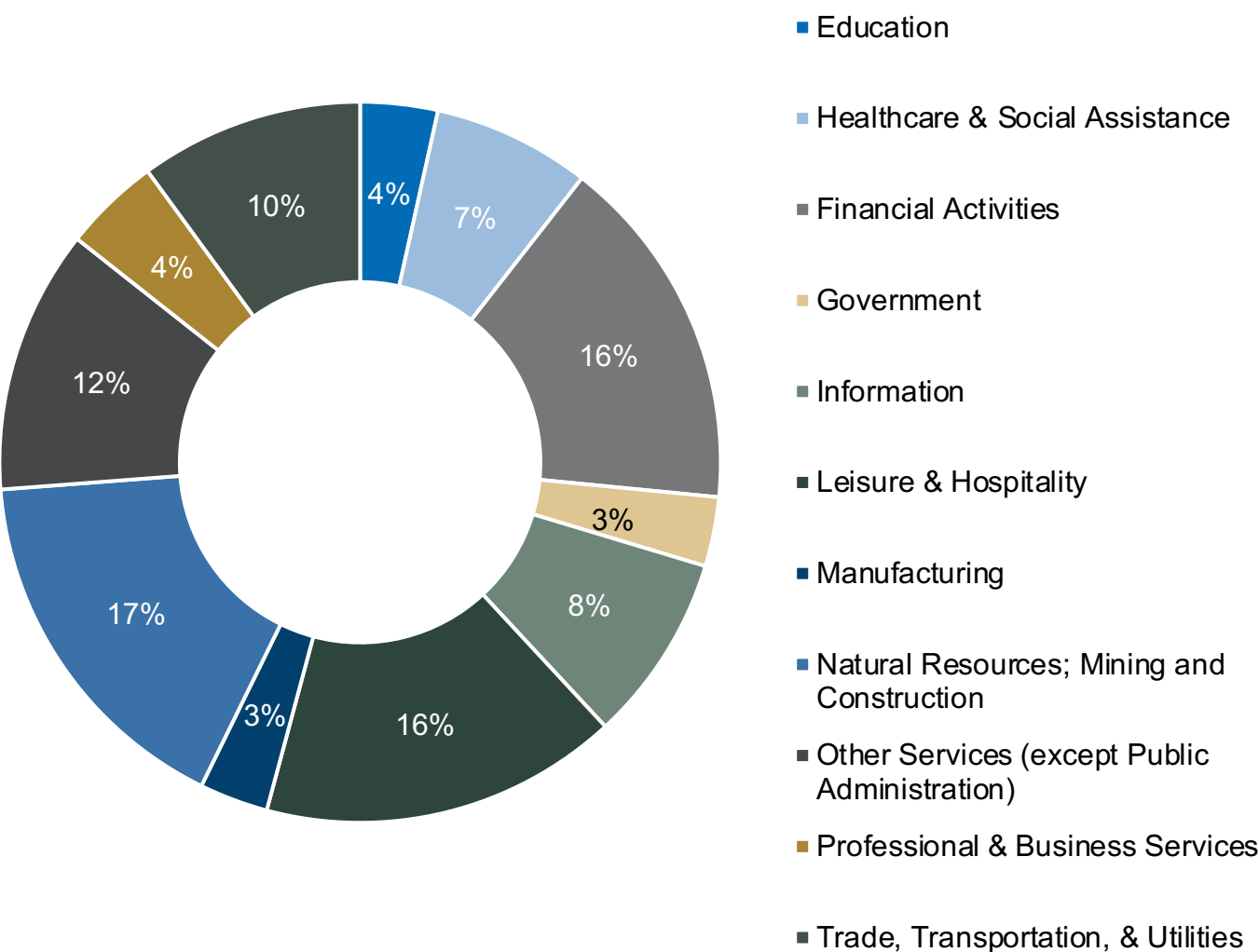


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area (Not Seasonally Adjusted)

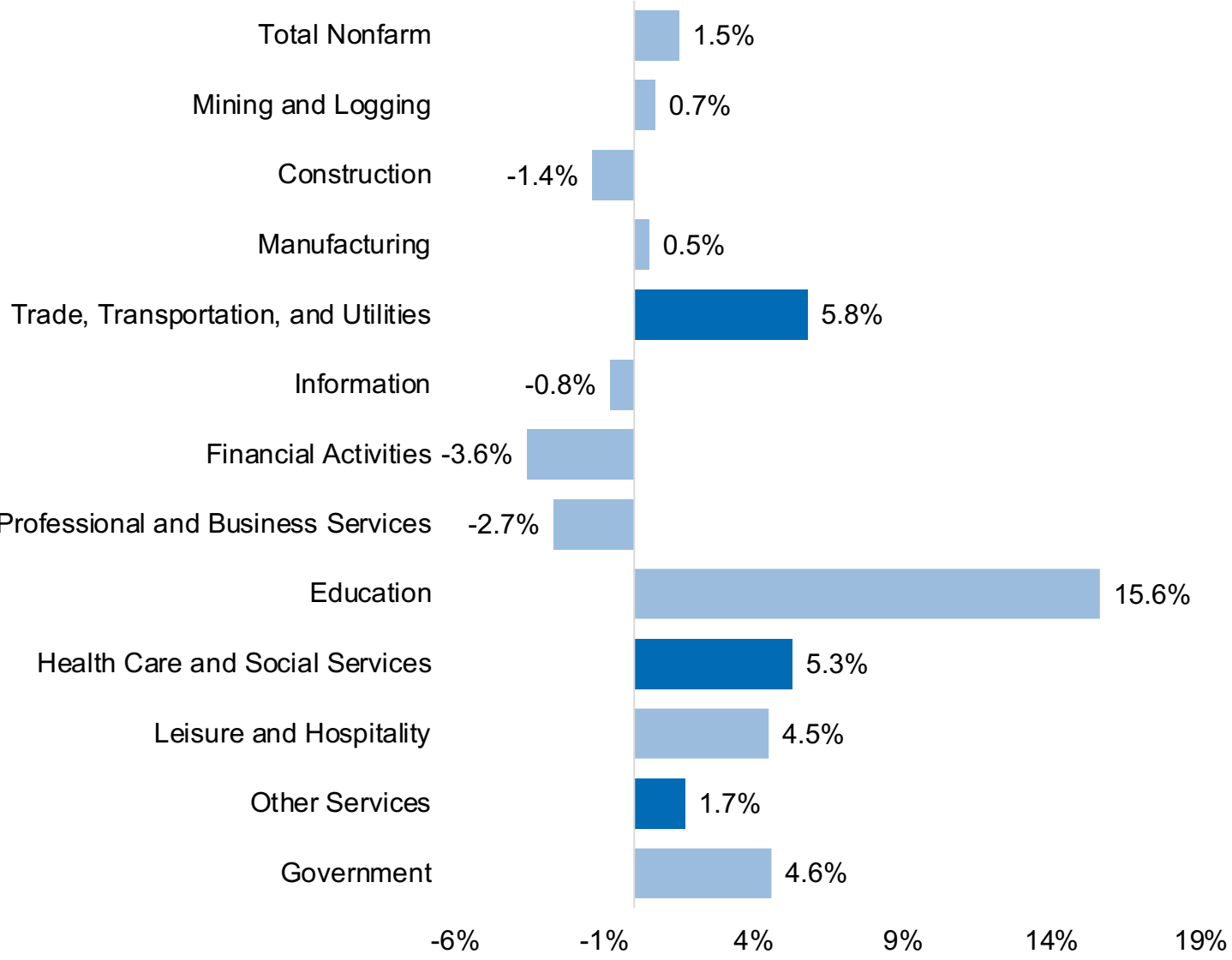
# Employment and Employment Growth by Industry

During the month of August, six industry sectors added jobs statewide, while four recorded losses. The education and health services sector saw the largest growth in August, up by 800 jobs, or 0.2%, followed by professional and business services (+700, or 0.3%). Meanwhile, jobs decreased in other services (-400, or -0.7%), leisure and hospitality (-300, or -0.2%), financial activities (-200, or -0.2%), and government (-100, or -0.04%)

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

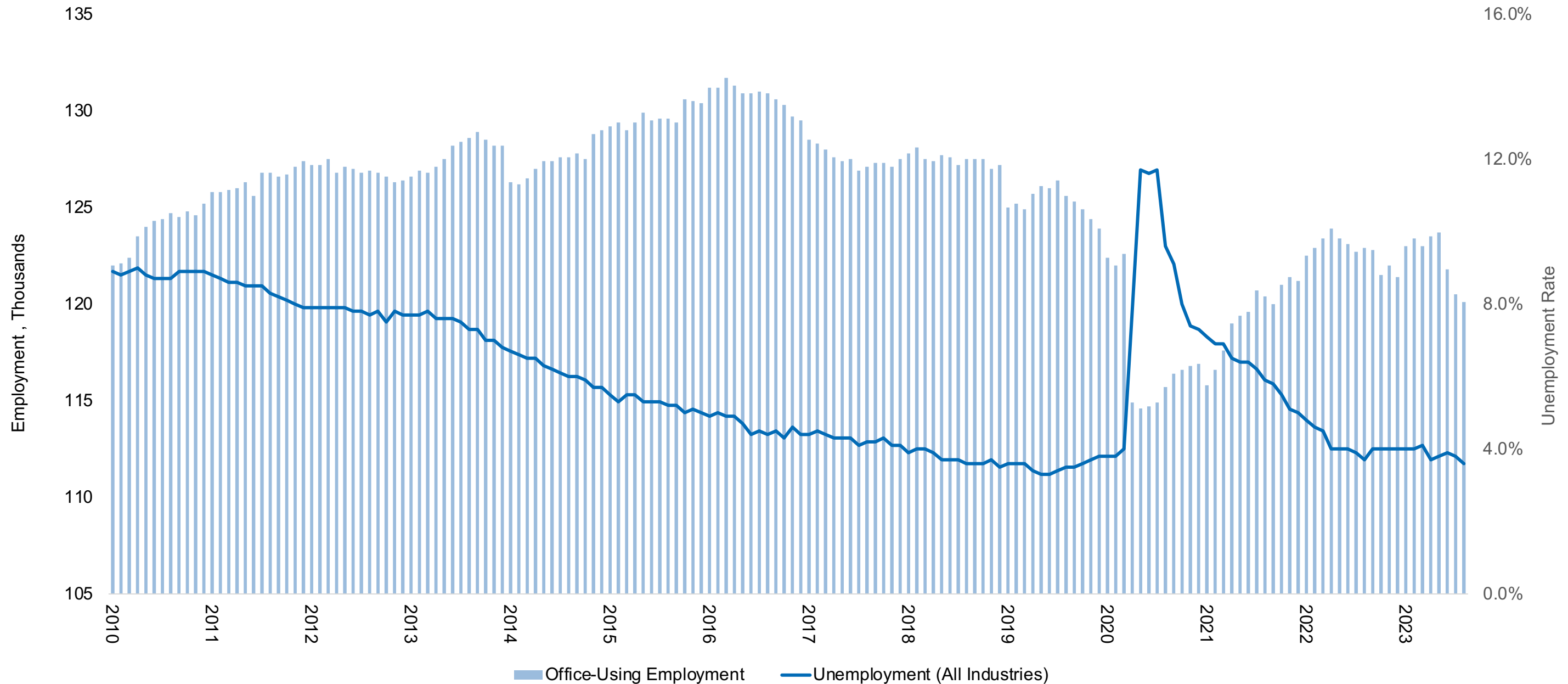


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area

# Overall Office-Using Employment Sees Downturn

Office-using employment has decreased in the last two months, ending 2.3% lower than the same period last year. Although recovery continues throughout the county after the pandemic, the rate has slowed in most of the largest markets. Negative demand due to continued work from home policies throughout the country continue to compete with added jobs and improved employment rates.

Office-Using Employment\* and Unemployment Across All Industries



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



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# Leasing Market Fundamentals

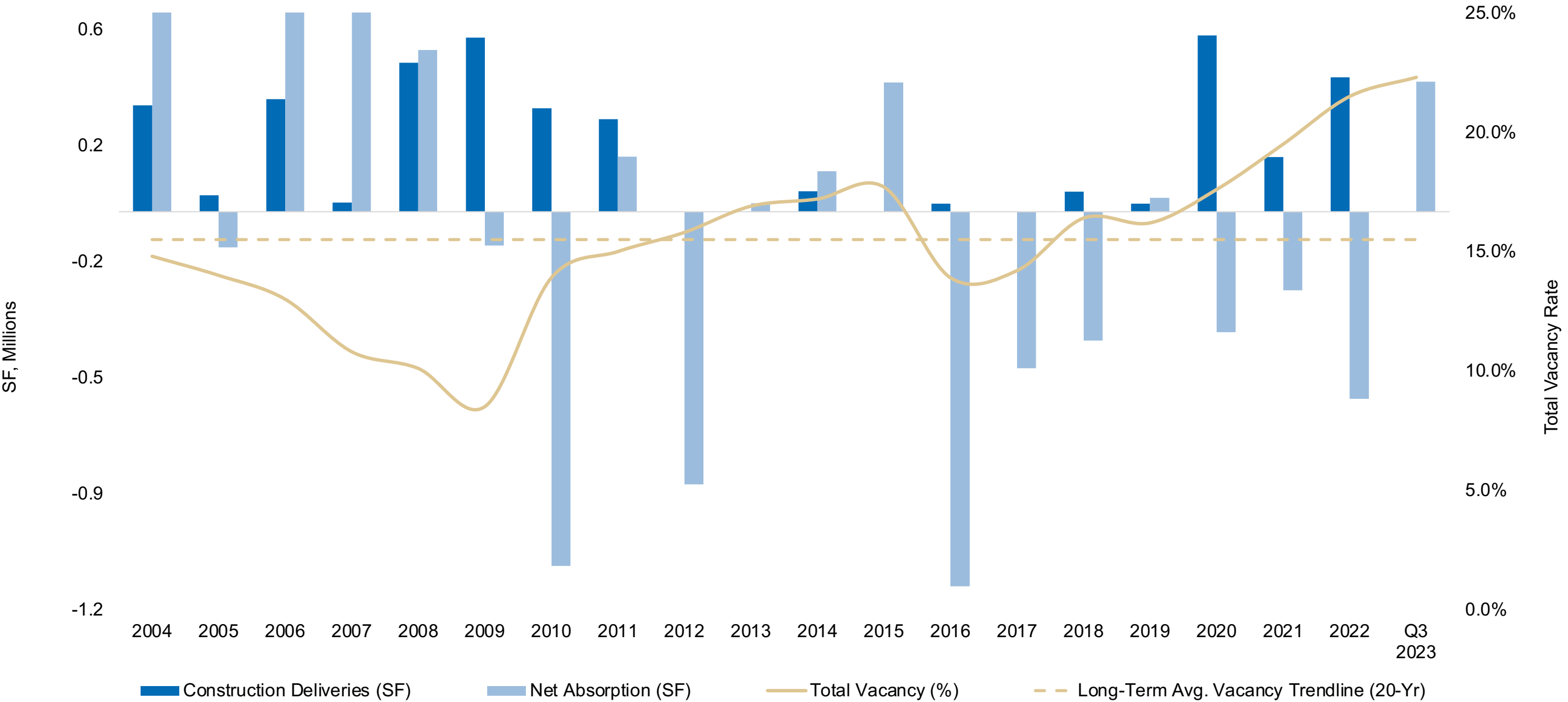




# Gains in Net Absorption Driven by Adaptive Reuse but Vacancy Rates Remain High

Third quarter 2023 net absorption ended with positive 220,594 SF, while the vacancy rate decreased to 22.3%, from 22.5% in the previous quarter and 22.6% at the start of the year. This was driven by the removal of a 430,000-SF block of space at 1 Elmcroft Road in the Stamford Waterfront, which will be converted to residential housing. As office occupancy falls, adaptive reuse is once again driving the local office real estate market

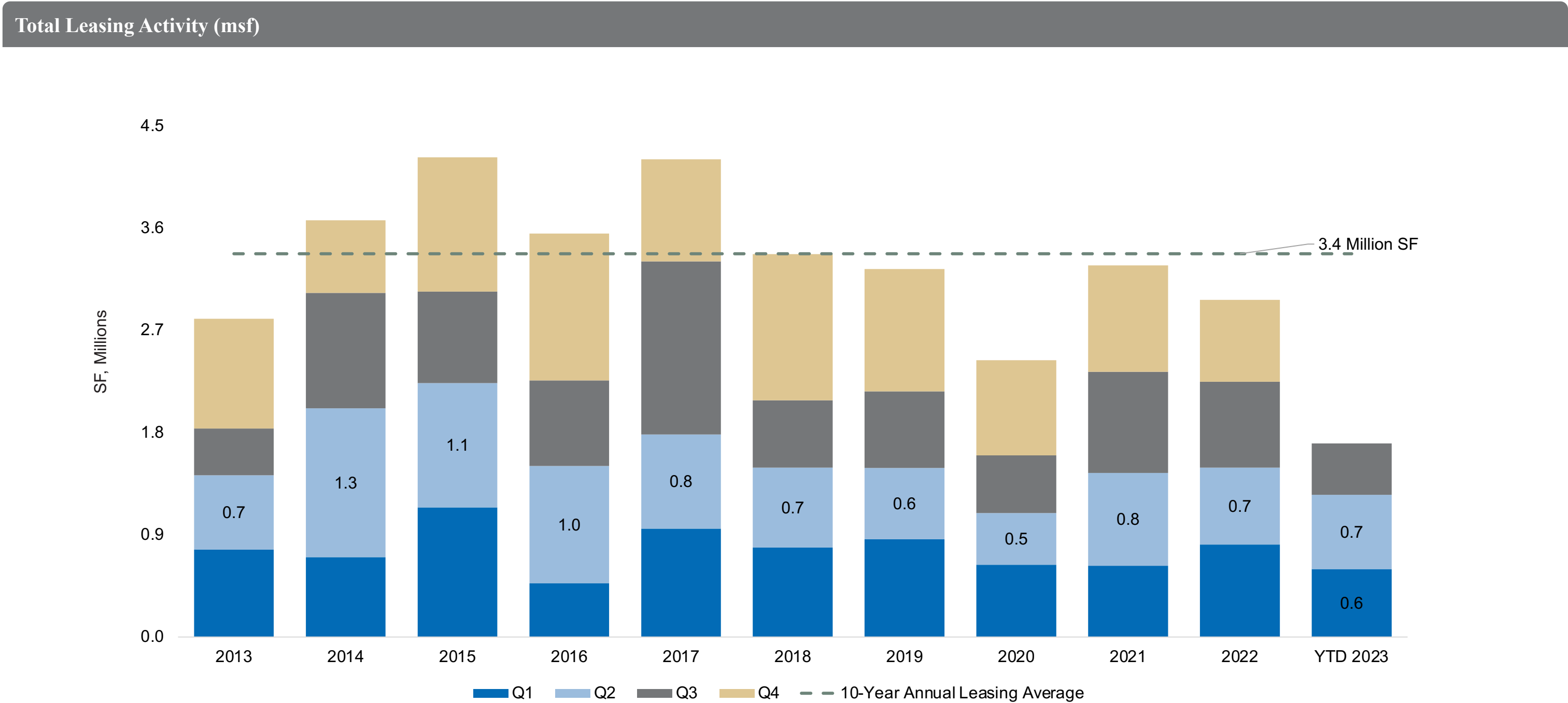
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

# Fairfield County Leasing On Track to Finish Year with Lowest Level Since 2020

Demand experienced a steep decline in the third quarter of 2023, with less than 500,000 SF of leases signed. This is notably low considering the 10-year historical average in the third quarter is 900,000 SF. Year-to-date leasing activity reached 1.7 million SF, 30.0% below the historical average. With long-lasting hybrid work arrangements and a cloudy economic outlook, firms have been steadfastly focused on cost cutting measures



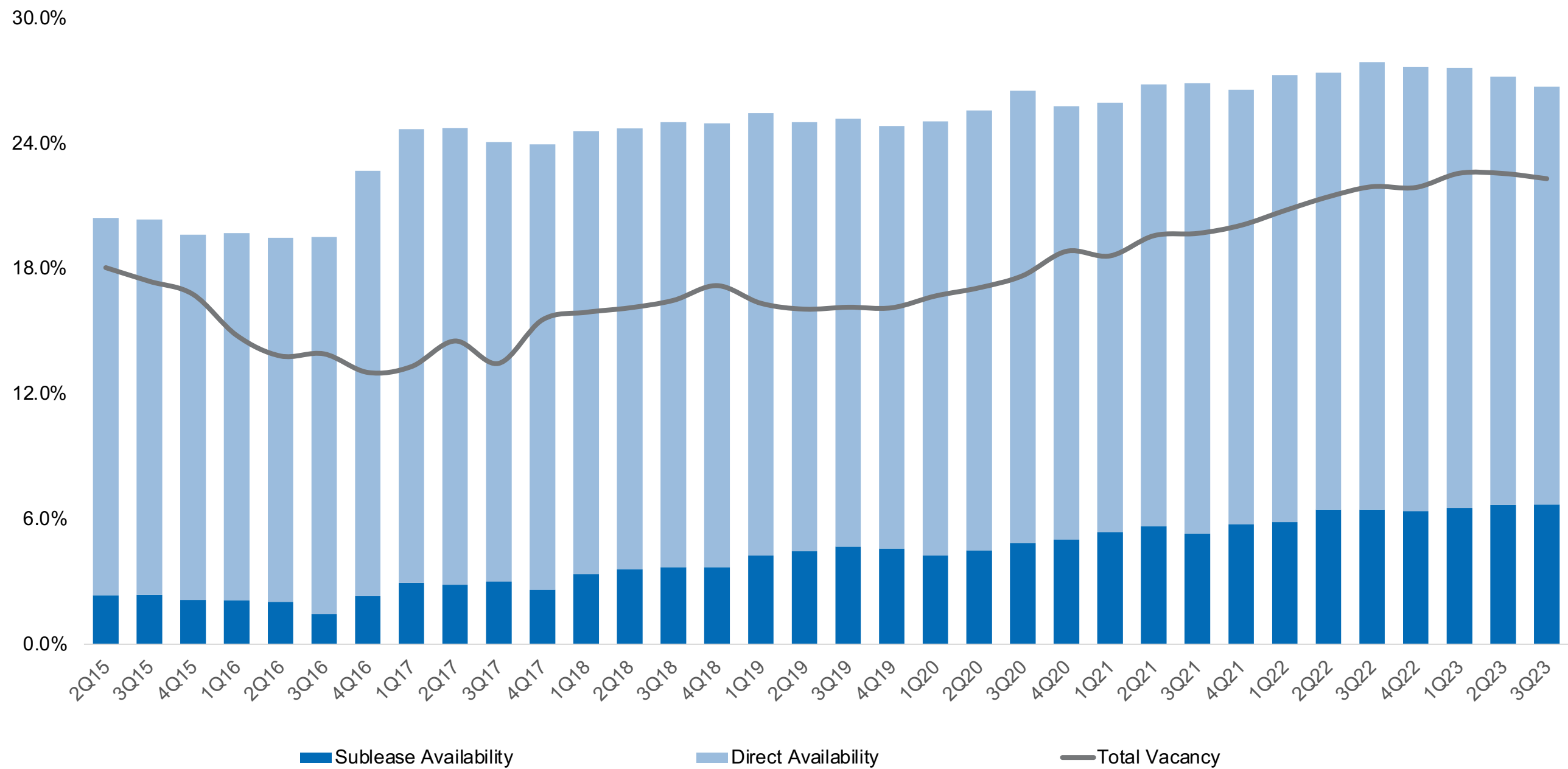
Source: Newmark Research, CoStar



# Availability Edges Down Slightly but Sublease Space Gradually Ticking Up

The direct availability rate remained stable from a year ago, though decreasing slightly from 20.5% in the previous quarter to 20.0%. On the other hand, more sublease space is anticipated to become available due to financial constraints and challenges dealing with business operations post COVID-19.

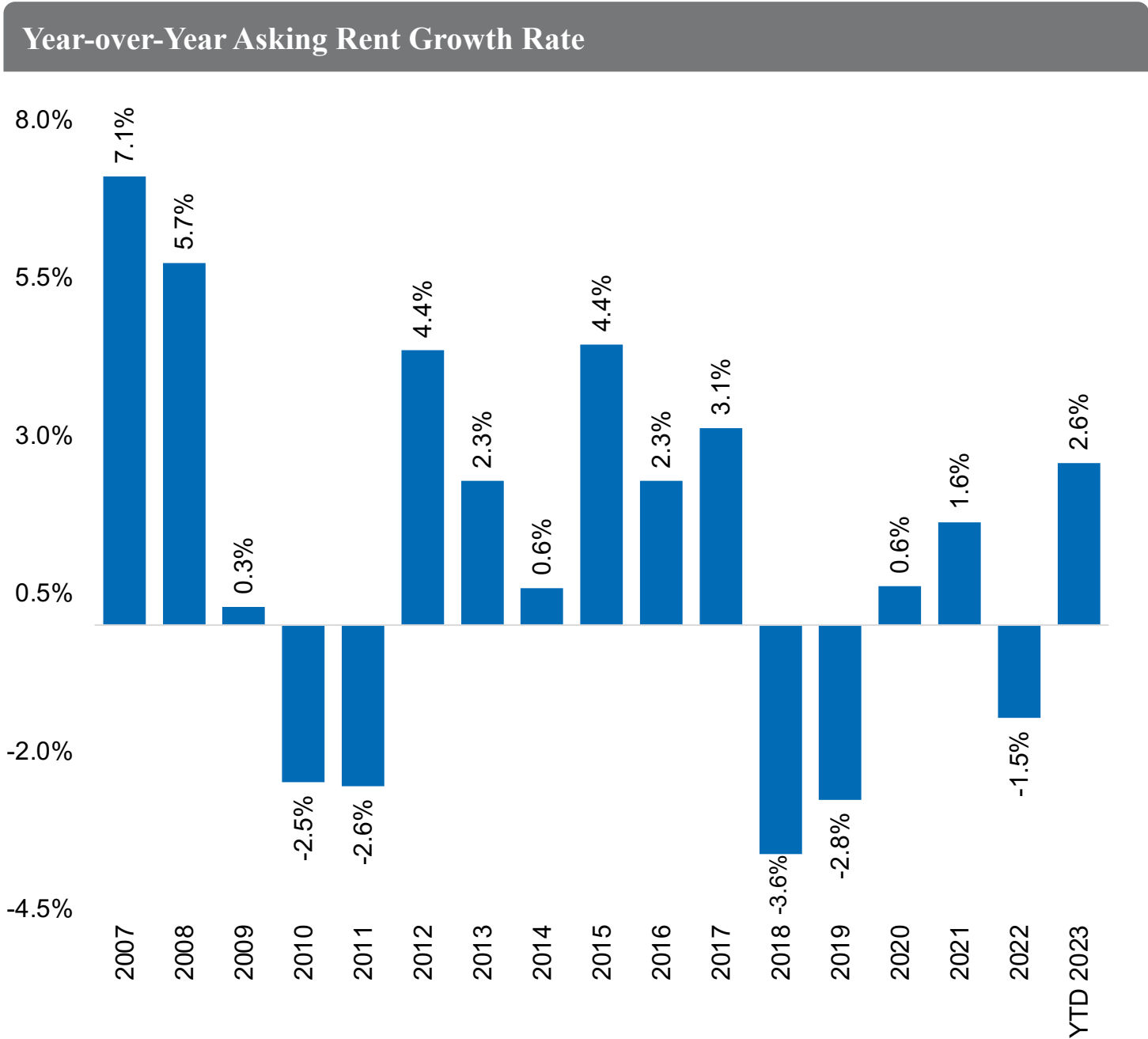
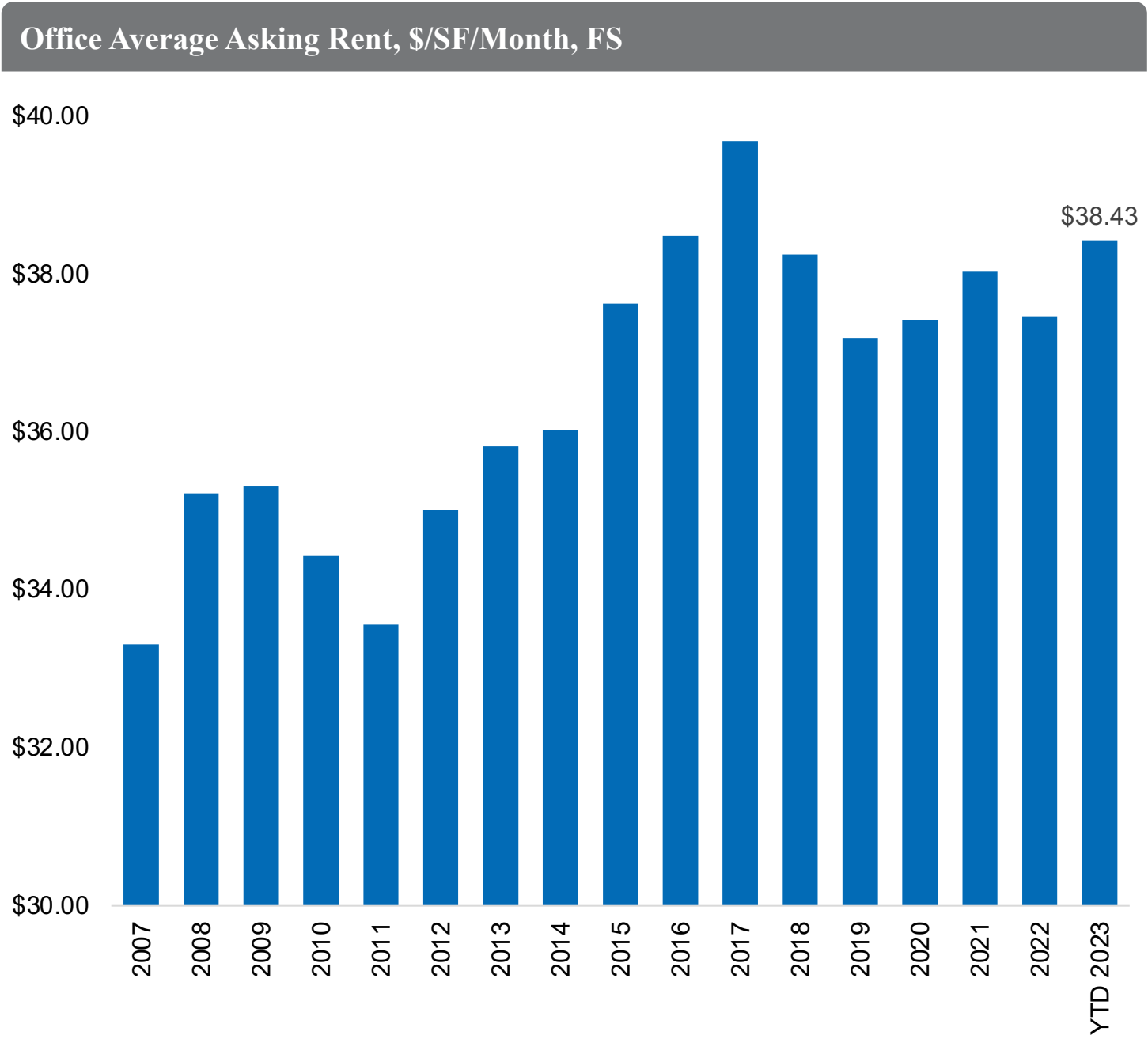
Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research

# Rents Continue to Climb

Overall asking rates increased this year, ending at \$38.43/SF, 2.0% above the average for the past five years. Office rents for several trophy assets in train-centric locations have increased in the past year.



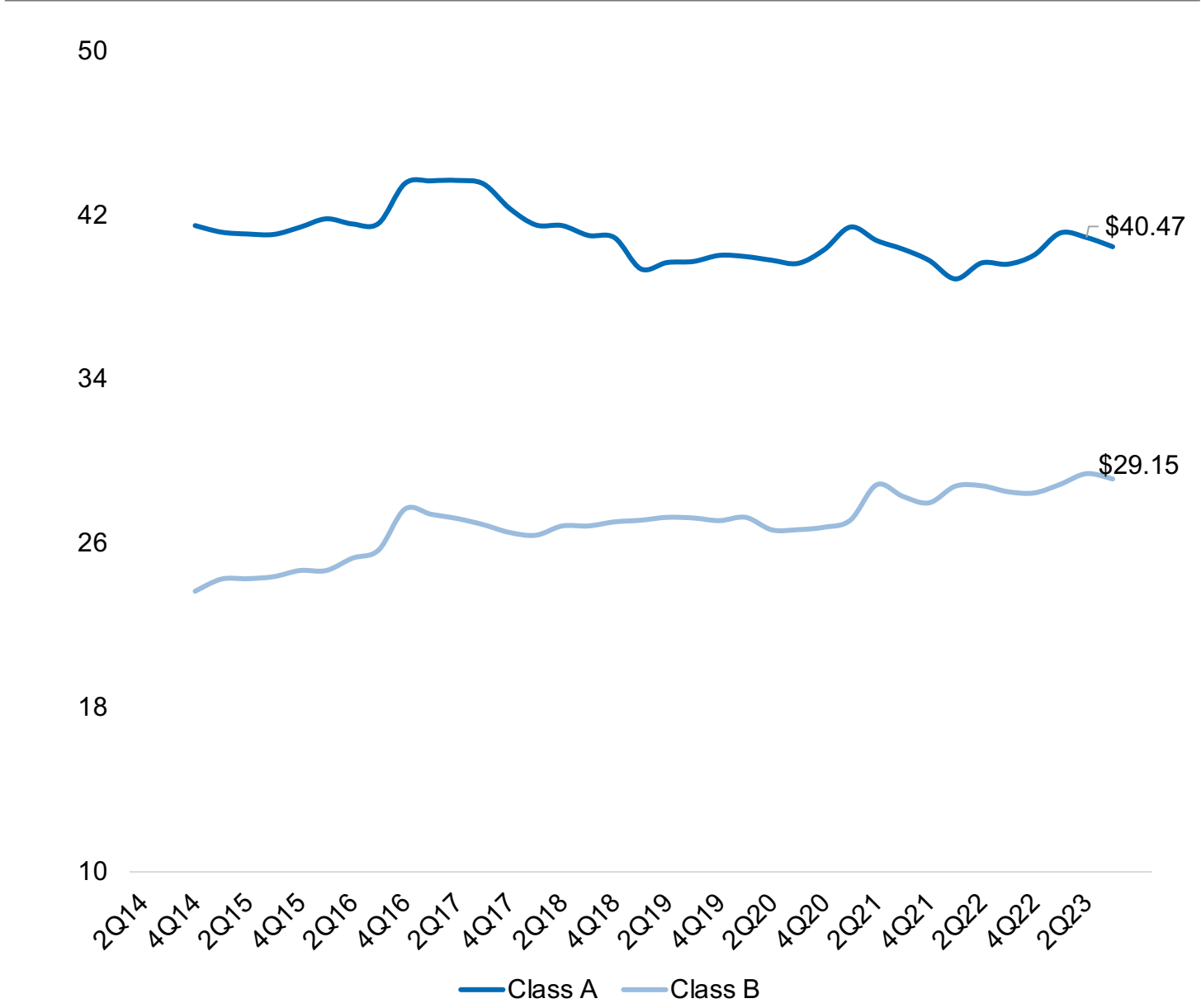
Source: Newmark Research



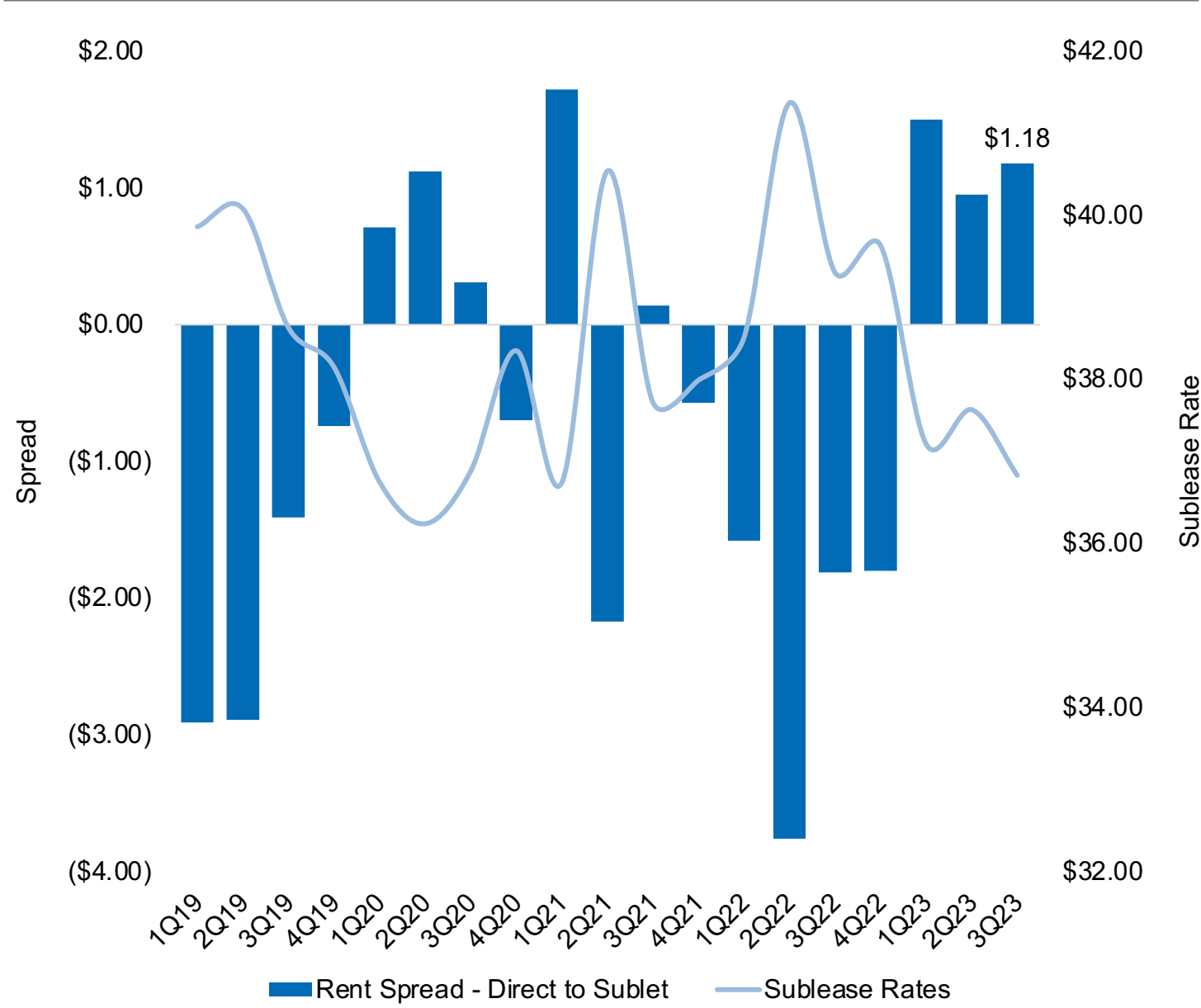
# Rent spread between Class A and B buildings Has Narrowed Over Time

As the ‘flight-to-quality’ trend continues amid the office sector, Class B property owners have taken note and invested in upgrading their product and amenities. The increase in asking rents for Class B space has supported tenant’s expectations for larger concession packages.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

# Third Quarter Leasing Activity Led By Small to Mid-Size Transactions

Leasing activity lagged in the third quarter, with less than 500,000 SF signed, down 31.1% from the previous quarter and 40.4% from the prior year. This quarter, most deals were concentrated in the mid-size range, between 10,000 SF to 25,000 SF, with no new leases for more than 20,000 SF. The number of deals also declined. Year-to-date, there were 259 deals signed countywide, compared with 285 on average.

## Notable Third Quarter 2023 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Englehart Commodities	400 Atlantic Street	Stamford CBD/Train	Renewal	19,928
YES Network (Yankee Entertainment and Sports Network)	250 Harbor Drive	Non-CBD/Stamford Waterfront	Renewal	19,909
Octagon	400 Atlantic Street	Stamford CBD/Train	New Lease	18,638
Local move out of 290 Harbor Drive, where company previously occupied 61,578 SF				
The Lockwood Group	1055 Washington Boulevard	Stamford CBD/Train	Renewal	16,725
Rhone Apparel	1 Dock Street	Stamford CBD/Train	Sublease	16,713
Sublease from Canidae. This move represents a local HQ move/expansion for Rhone				
Whitman Breed Abott & Morgan	500 West Putnam Avenue	Non-CBD/Western Greenwich	Renewal	16,439

Source: Newmark Research



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## Fairfield County Office Submarket Overview (Page 1 of 2)



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## Fairfield County Office Submarket Overview (Page 2 of 2)



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# Fairfield County Office Submarket Map



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