

4Q23

# Fairfield County Office Market Overview



NEWMARK



# Market Observations

## Economy

- Despite macro-economic headwinds the state of Connecticut showed resilience in 2023, with nonfarm industry employment finishing the year with 24,300 positions higher than a year ago, representing a 1.5% increase over 2022.
- As of November, the state's unemployment was fourth tenths of a percent lower than the 4.0% rate recorded a year ago. Fairfield County's unemployment rate decreased by 30 basis points to 3.7% from last year, mirroring the national average.
- Several industries added jobs in Q4 2023, with gains led by the healthcare and education sectors, while declines were largely concentrated in the professional, administrative and support services.
- The state is well-positioned for balanced growth in the coming year, as unemployment remains stable, and jobs continue to grow across industries.

## Major Developments

- Office-to-residential conversions soared by 54.4% in 2023. Prior to 2020, the average annual inventory removed from statistics due to conversions was 300,000 SF. In 2022 that number grew to 1.1 million SF. In 2023, this figure jumped to an astonishing 1.8 million SF.
- Pre-leasing began at 1 Market Street, Darien's new "Corbin District" development. Three deals totaling 46,500 SF were signed, including a 25,856 SF deal by AON, which will consolidate its Stamford and Norwalk operations, reducing its current footprint by 67%. Delivery for the new 95,000-SF project is slated for Q1 2026.
- As some firms adopt cost cutting measures and footprint reductions, the educational sector have taken the opportunity to snap up unused office spaces. Since the pandemic began, more than half a million SF of office space has been absorbed by private academies or special ed schools. This quarter, The Hubbard Day School renewed and expanded for a total of 51,000 SF at Two Harbor Landing in Stamford. Other notable school leases completed in recent years include Cooperative Educational Group in Trumbull, Danbury Career Academy, Goddard School, and Greenwich Education Group in Stamford.

## Leasing Market Fundamentals

- The overall availability rate ended at 26.4%, improved from 27.6% a year ago and from 26.7% in the previous quarter. Although leasing volumes decreased, the removal of a long-vacant 430,000-SF block of office space at 1 Elmcroft Place in Stamford alleviated some of the high vacancy and led to net absorption figure of 491,000 SF for the year. 1 Elmcroft Road is slated for residential conversion.
- The market concluded 2023 with 340 deals for 2.3 million SF, 32.4% below the 10-year average of 3.4 million SF and comprised of 48 deals fewer deals than average. Declines in leasing were seen across the county except for Westport, which showed an increase of 27.5% year-over-year, and the Greenwich non-CBD market, which had a slight uptick of 2.3%. The largest decreases were seen in the Stamford non-CBD and Downtown Greenwich markets.
- Investment sales numbers suffered this year with falling investor demand and high interest rates. Only 481,000 SF traded for a total of \$94.0 million, averaging a \$220 price per SF, compared with 2.6 million SF for \$650 million in 2022, at an average of \$300/SF.

## Outlook

- The U.S. economy avoided the recession forecasted for 2023, but while a milder economic decline may still be possible in 2024, potential interest rate reductions may allow for greater flexibility and help drive activity in the market.
- In addition to the 1.8 million SF of office buildings that will be removed from statistics due to conversions, there is an additional 700,000 SF of vacant office space that is currently being considered for conversion, indicating that adaptive reuse of antiquated commodity buildings will continue in the coming year.
- Asking rents ended at \$38.28/SF, up by 2.4% since last year. Pricing is expected to trend upwards again in 2024 as owners continue to face higher tenant retention and acquisition costs, along with higher operating expenses and taxes.

1. Economy
2. Leasing Market Fundamentals



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# Economy

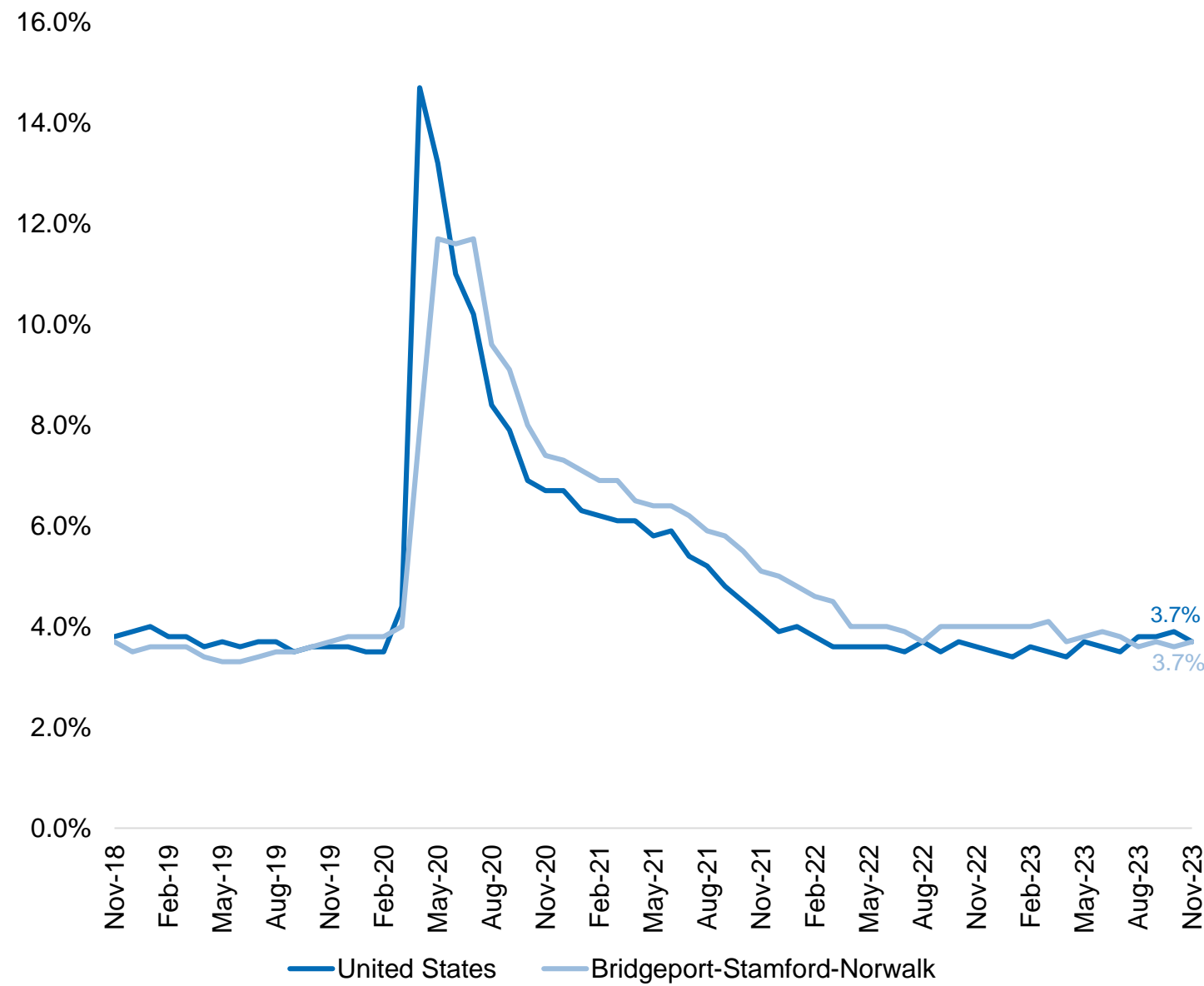




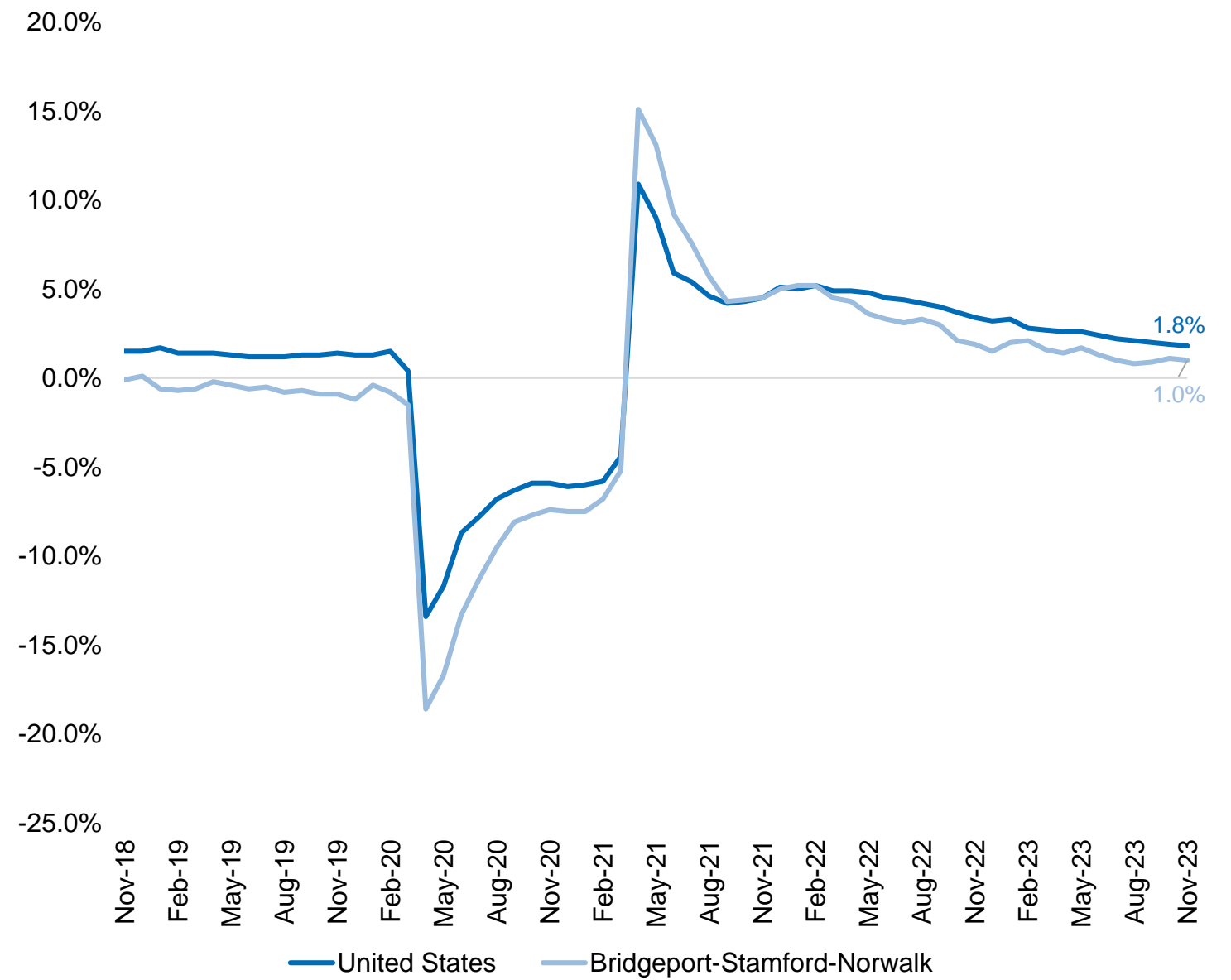
# Connecticut Jobs Fully Recover COVID Losses

The unemployment rate ended at 3.7% in the United States and in the Bridgeport-Stamford-Norwalk metro area in November. The State of Connecticut gained 500 nonfarm jobs in November 2023, increasing by 0.03%. The state has now fully recovered 100.5%, or 290,500 of the 289,100 total nonfarm jobs lost during the COVID-19 lockdown in March 2020. The state's private sector employment decreased by 300 jobs in November and is now 101.9% recovered from the COVID-19 lockdown.

Unemployment Rate, Seasonally Adjusted



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



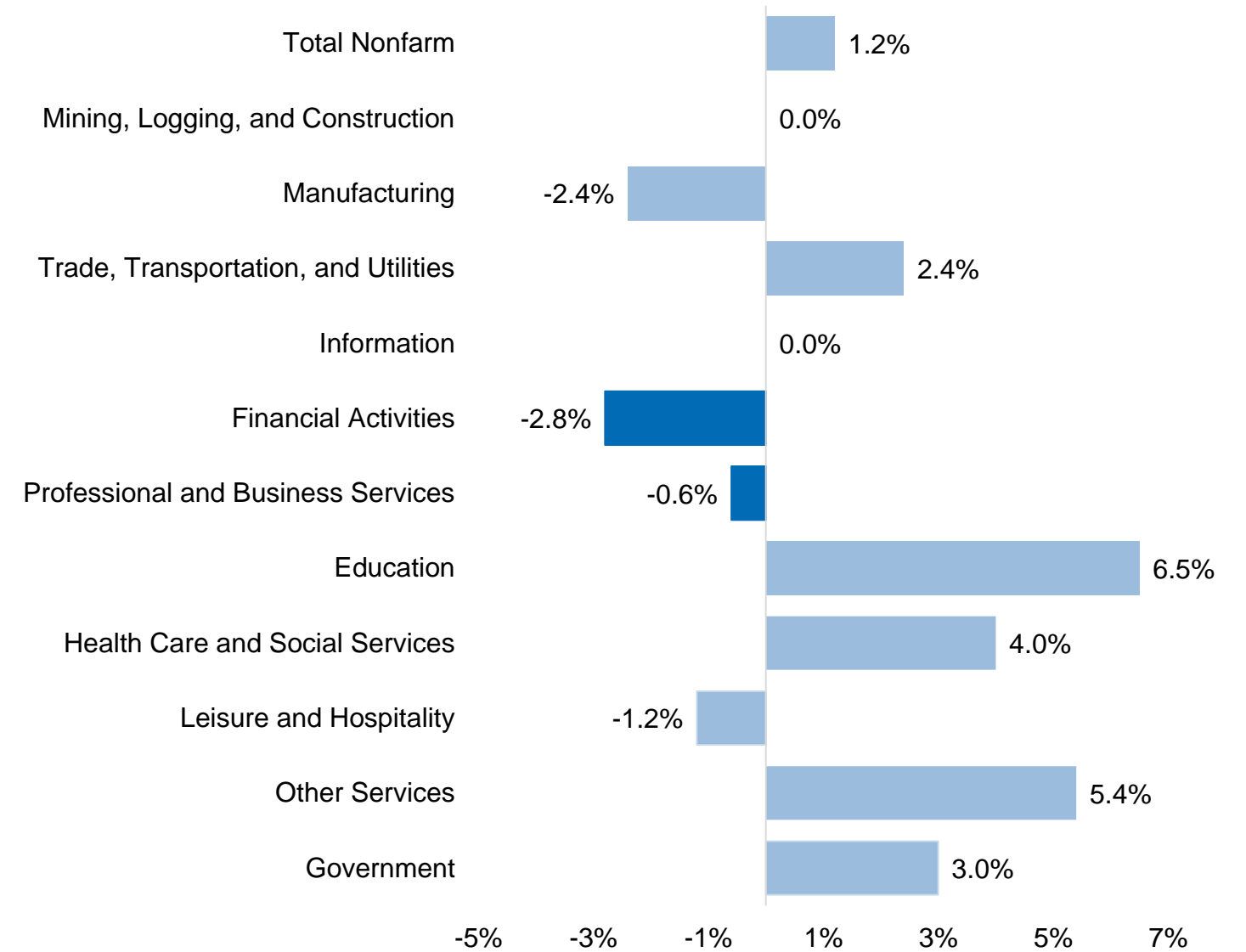
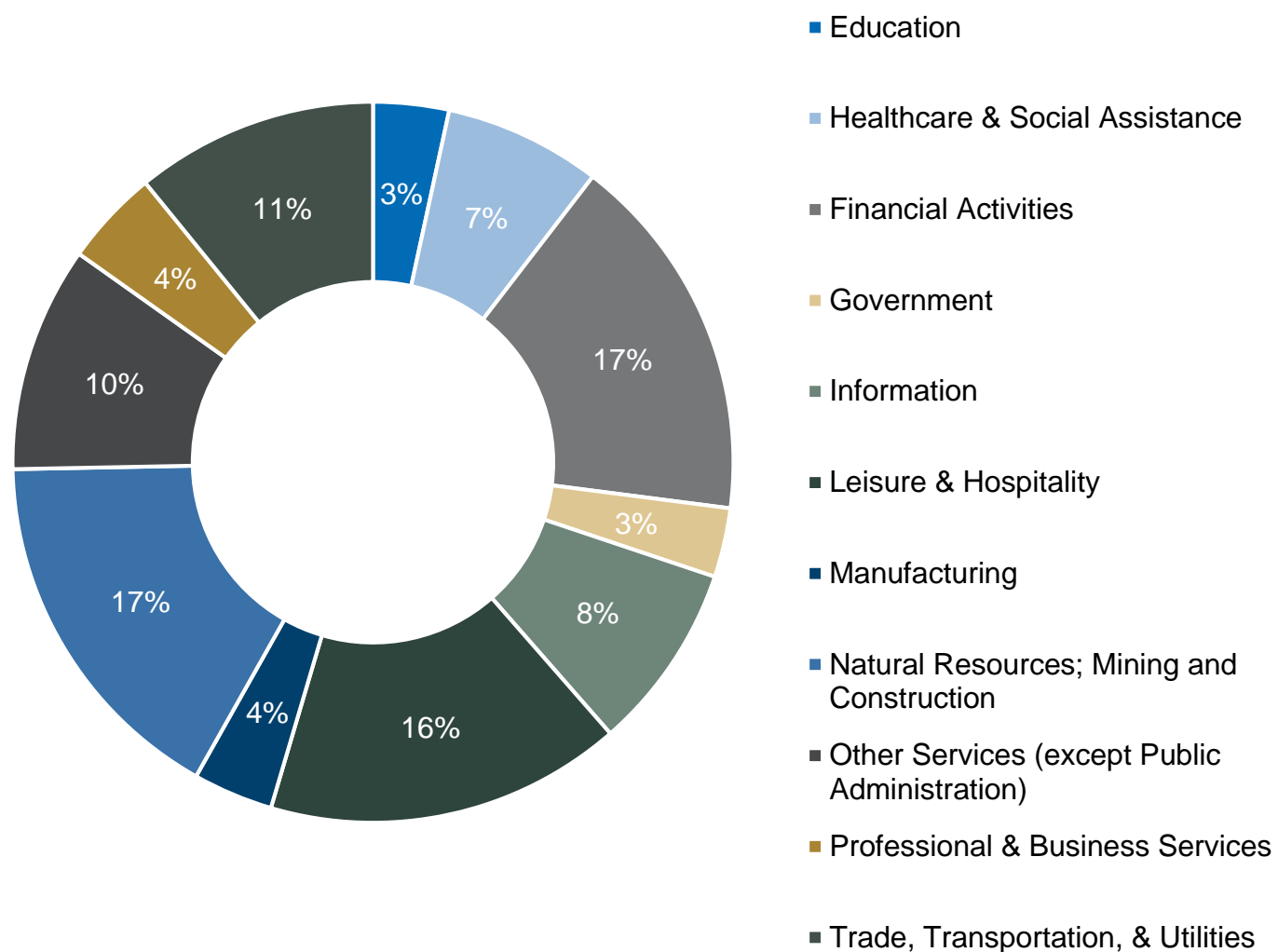
Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area (Not Seasonally Adjusted)

# Employment and Employment Growth by Industry

Statewide, four industry super sectors added jobs this month and five recorded losses. The educational and health services sector saw the largest growth in November, up by 1,000 jobs, or 0.3%, followed by leisure and hospitality (+800, or 0.5%), government (+800, or 0.3%), and manufacturing (+300, or 0.2%). Other services remained unchanged, while decreases occurred in the professional and business services (-1,200, or -0.5%), financial activities (-500, or -0.4%), information (-300, or -0.9%), construction and mining (-200, or -0.3%), and trade, transportation, and utilities (-200, or -0.1%).

Employment by Industry, November 2023

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

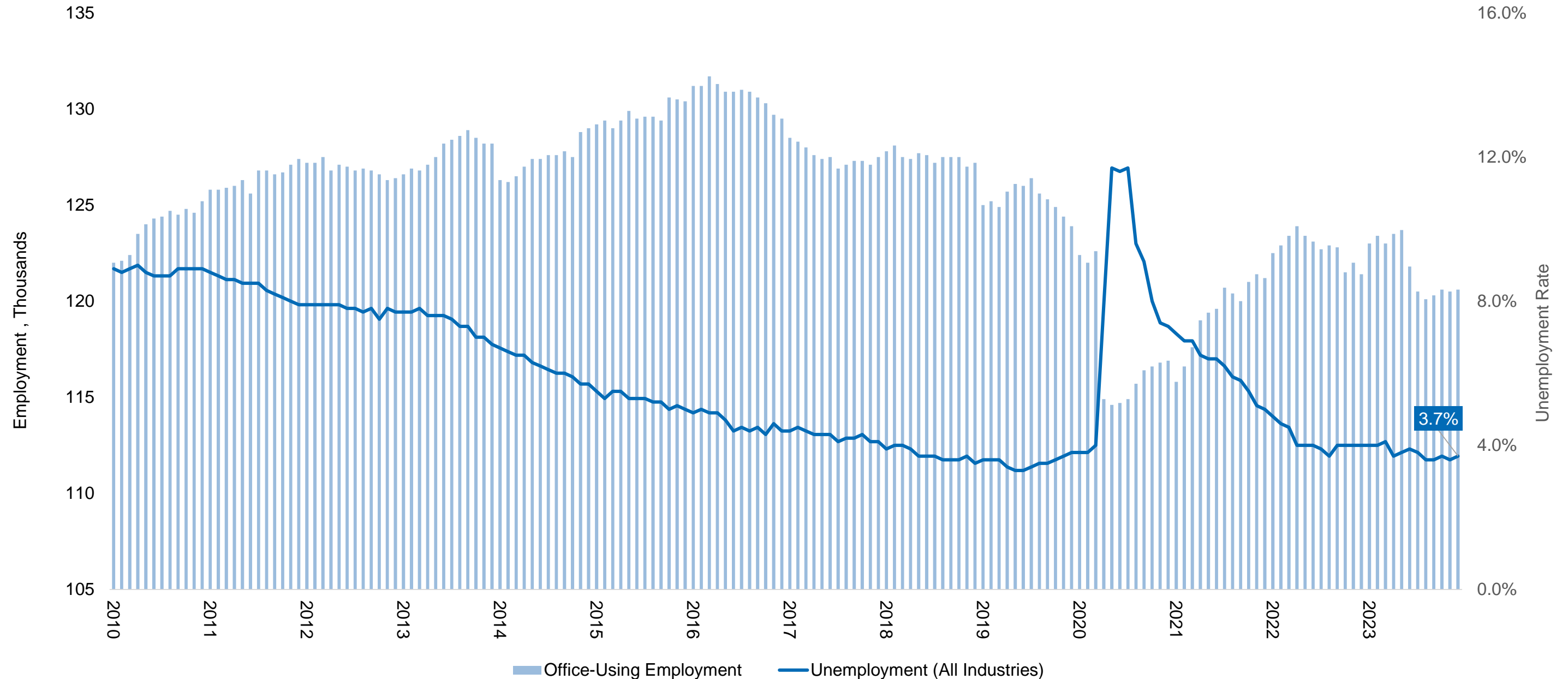


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area

# Overall Office-Using Employment

The number of office jobs has remained lower than pre-pandemic levels in the year 2023, ticking up in the beginning of the year with a drop off towards the end. The yearly average unemployment rate for this year has remained stable but has steadily gone down since 2021.

## Office-Using Employment\* and Unemployment Across All Industries



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

Note: November 2023 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

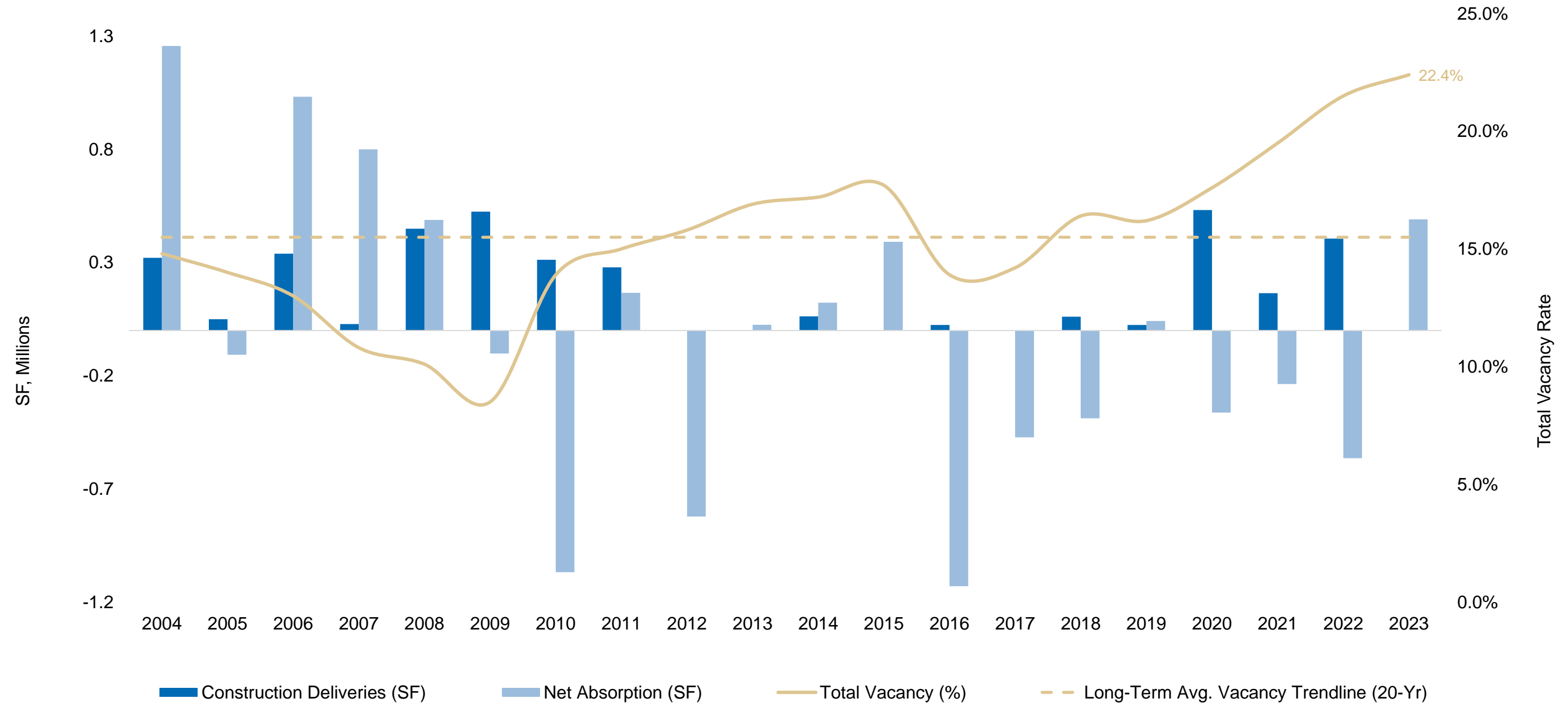




# Net Absorption Driven by Office-to-Residential Conversion; Vacancy Remains Elevated

After seven consecutive years of flat-to-negative absorption, the removal of a long-vacant, 430,000-SF block of space at 1 Elmcroft Road in Stamford comprised the greater part of the 490,000 SF of positive absorption in 2023. Office-to-residential conversions, which is on the rise, has presented an opportunity to reduce the excess space in a post-pandemic market, while simultaneously boosting the housing supply.

Historical Construction Deliveries, Net Absorption, and Vacancy



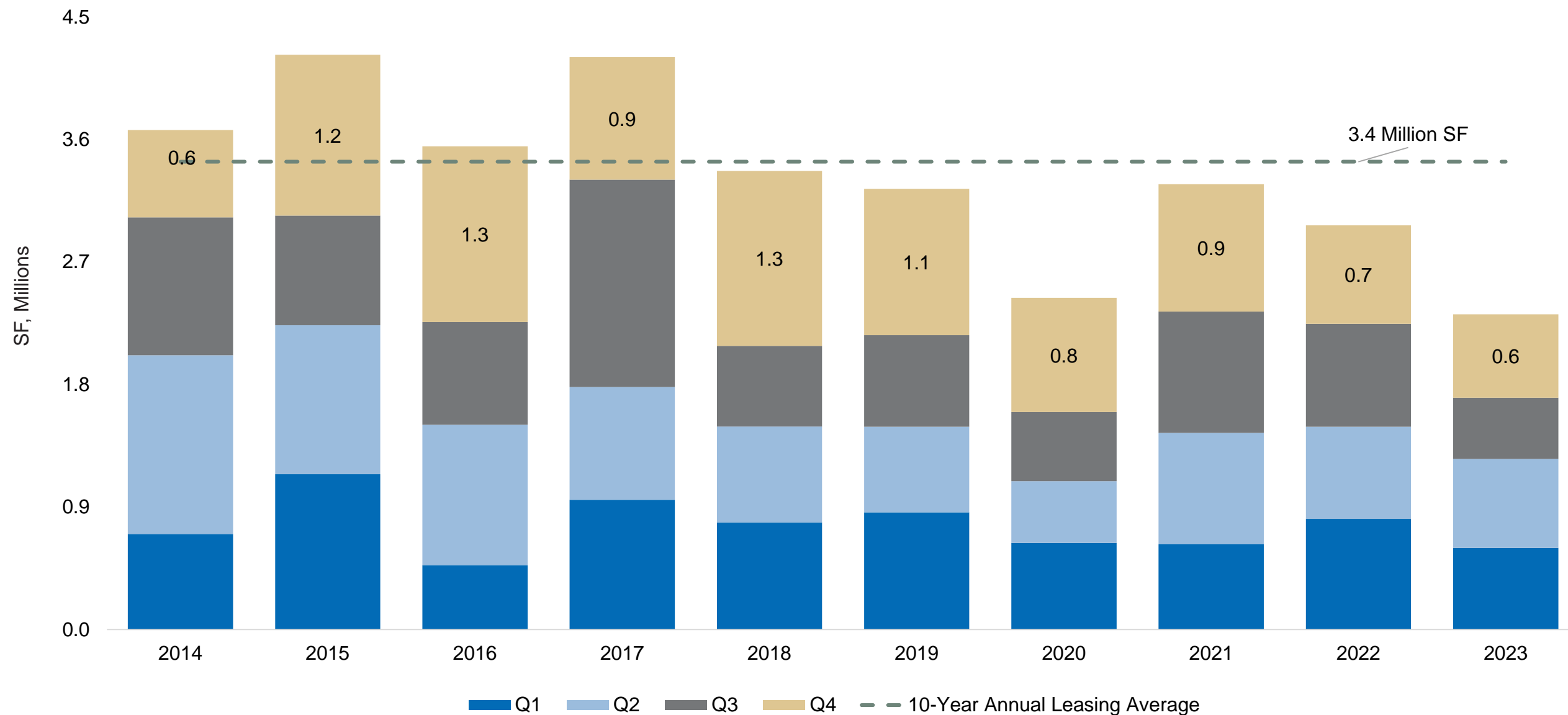
Source: Newmark Research



# Leasing Activity Sees 22.0% Year-Over-Year Decline

Leasing activity totaled 2.3 million SF in 2023, a significant decrease of 22.0% from 2022 and 32.6% below the 10-year historical average of 3.4 million SF. The fourth quarter tally lagged significantly, with only 615,000 SF, versus 1.0 million SF on average. Large deals, or those for more than 100,000 SF, were nearly nonexistent, with Purdue's (short-term) renewal counting as the only transaction of that size. By comparison, there are an average of 4 deals signed in that size range on a yearly basis.

Total Leasing Activity (msf)



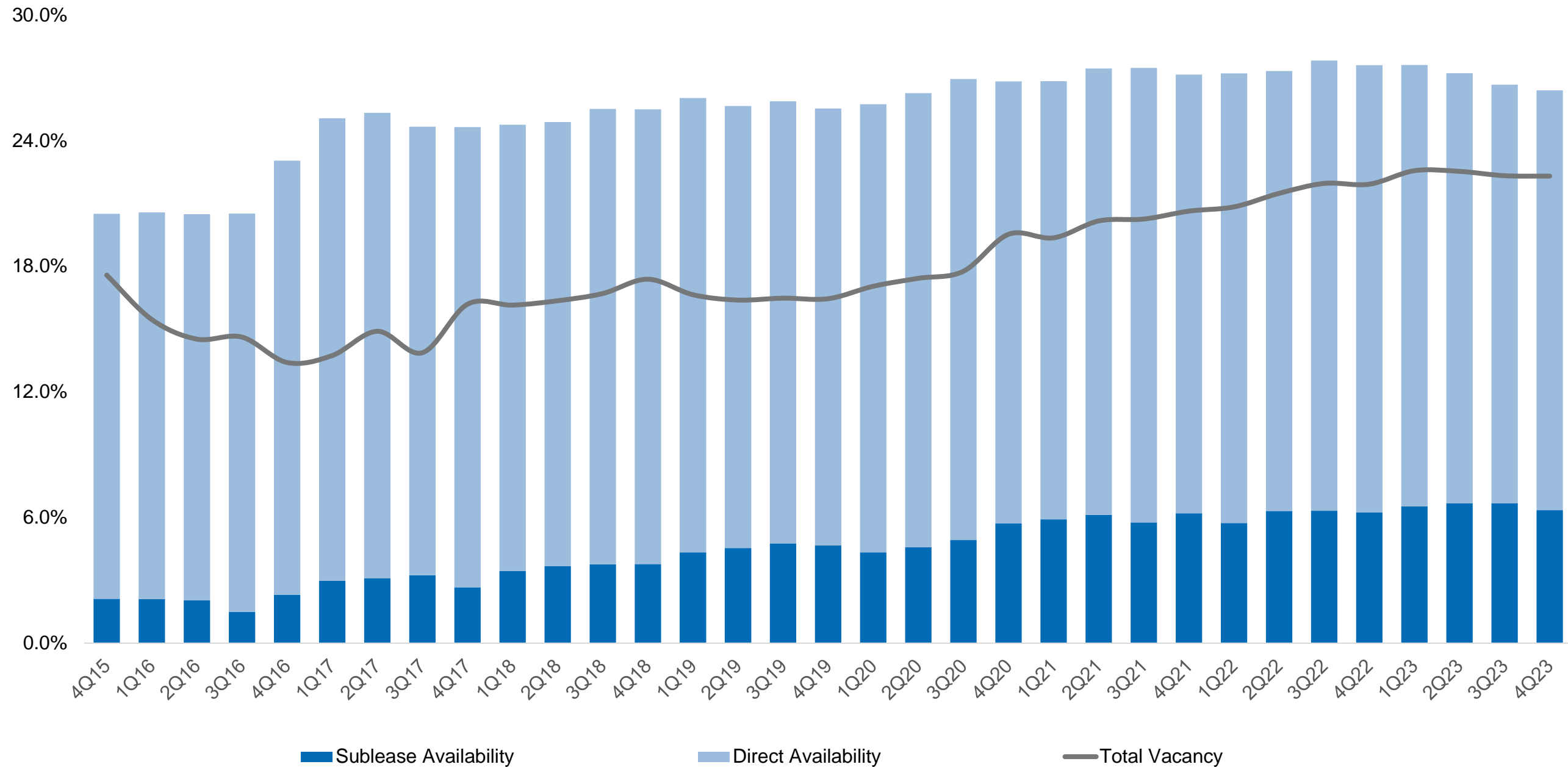
Source: Newmark Research, CoStar



# Availability Edges Down Slightly but Sublease Space Gradually Ticking Up

Direct availability, which has hovered in the low 21% level since 2021, edged down to 20% in 2023, finishing the year at 20.1%. The sublease availability rate saw a decrease at year-end, from 6.7% in the previous quarter to the current 6.3%. This was primarily due to 130,000 SF of available sublease space from Affinion and Crisil expiring at 6 High Ridge Office Park in Stamford.

Available Space and Tenant Demand as Percent of Overall Market



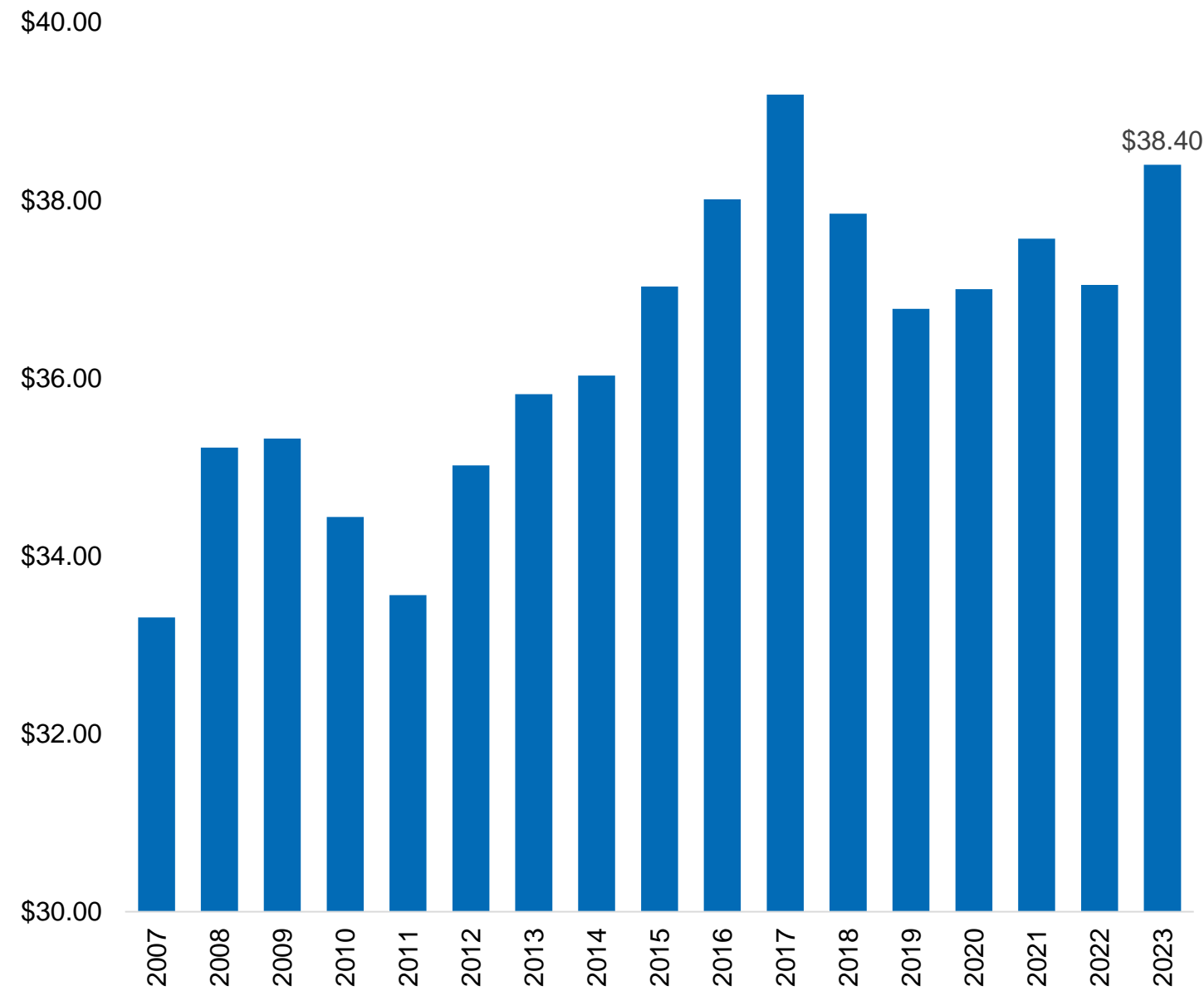
Source: Newmark Research



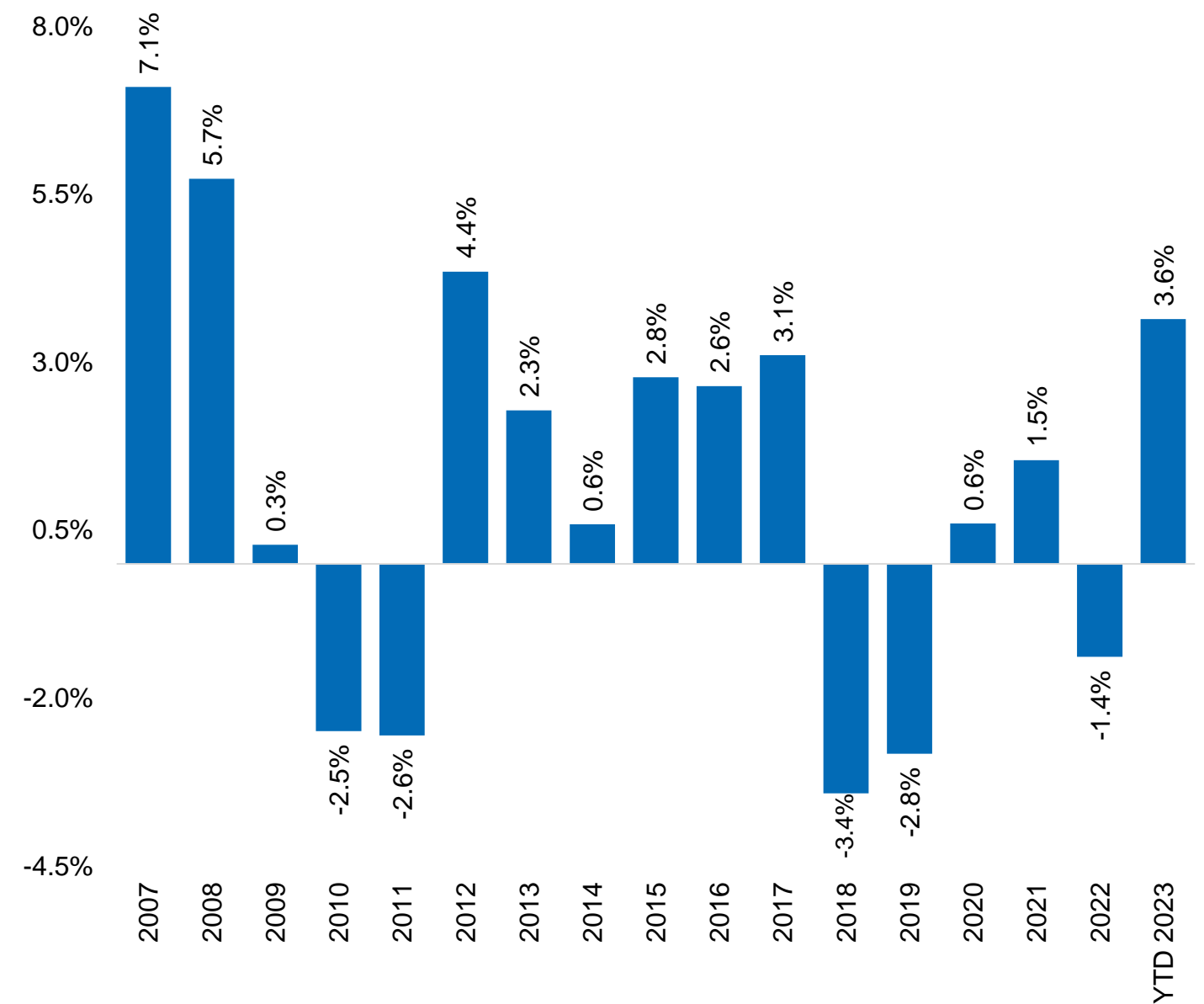
# Average Asking Rents Rose by 3.6% Year-Over-Year

The average asking rent in 2023 was \$38.40/SF, up 3.6% from \$37.05/SF in 2022 and 3.1% above the \$37.25/SF average for the past five years. Unsurprisingly, high quality properties in top markets continue to fetch premium rates, pushing the overall average higher this year.

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



Year-over-Year Asking Rent Growth Rate



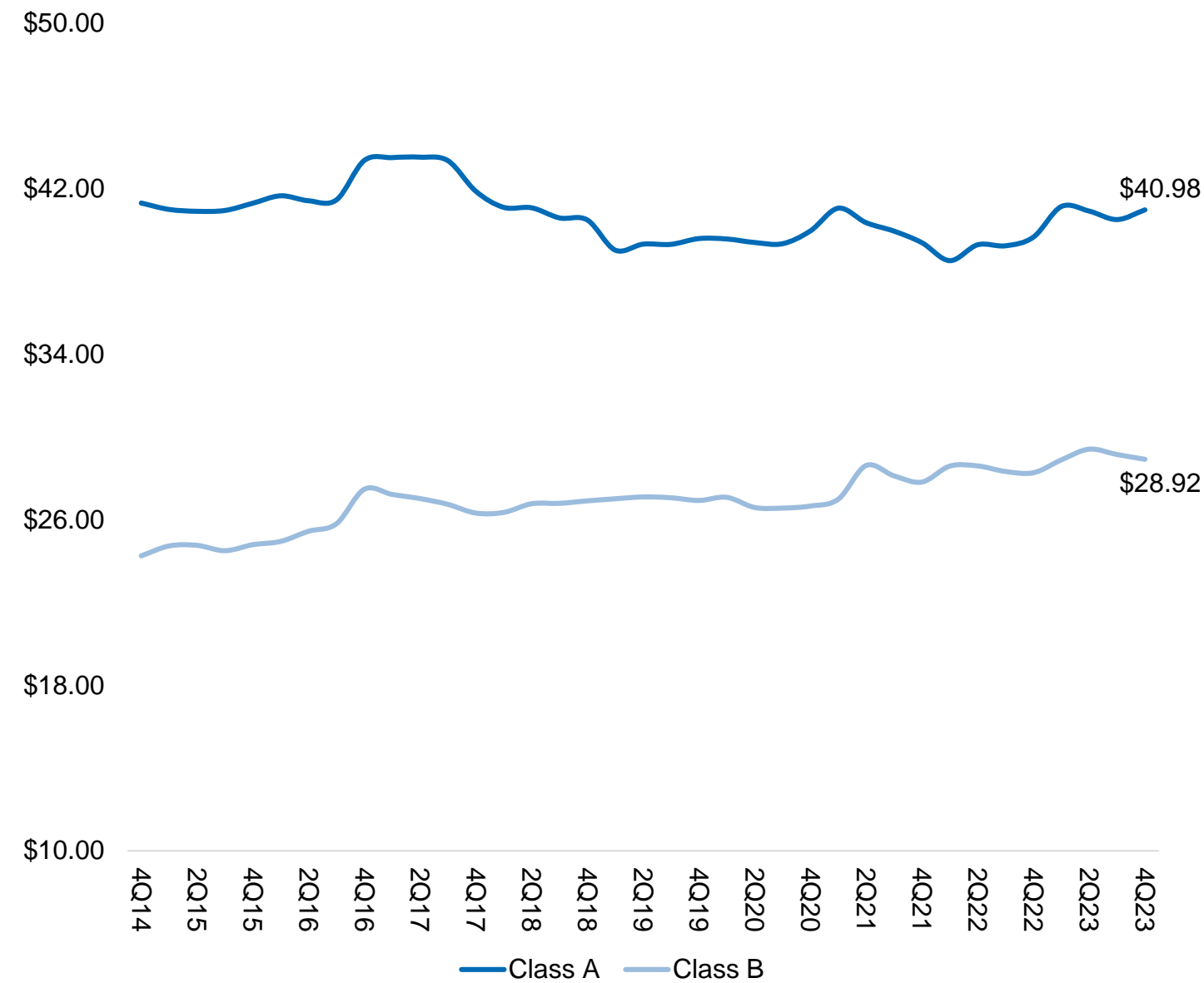
Source: Newmark Research



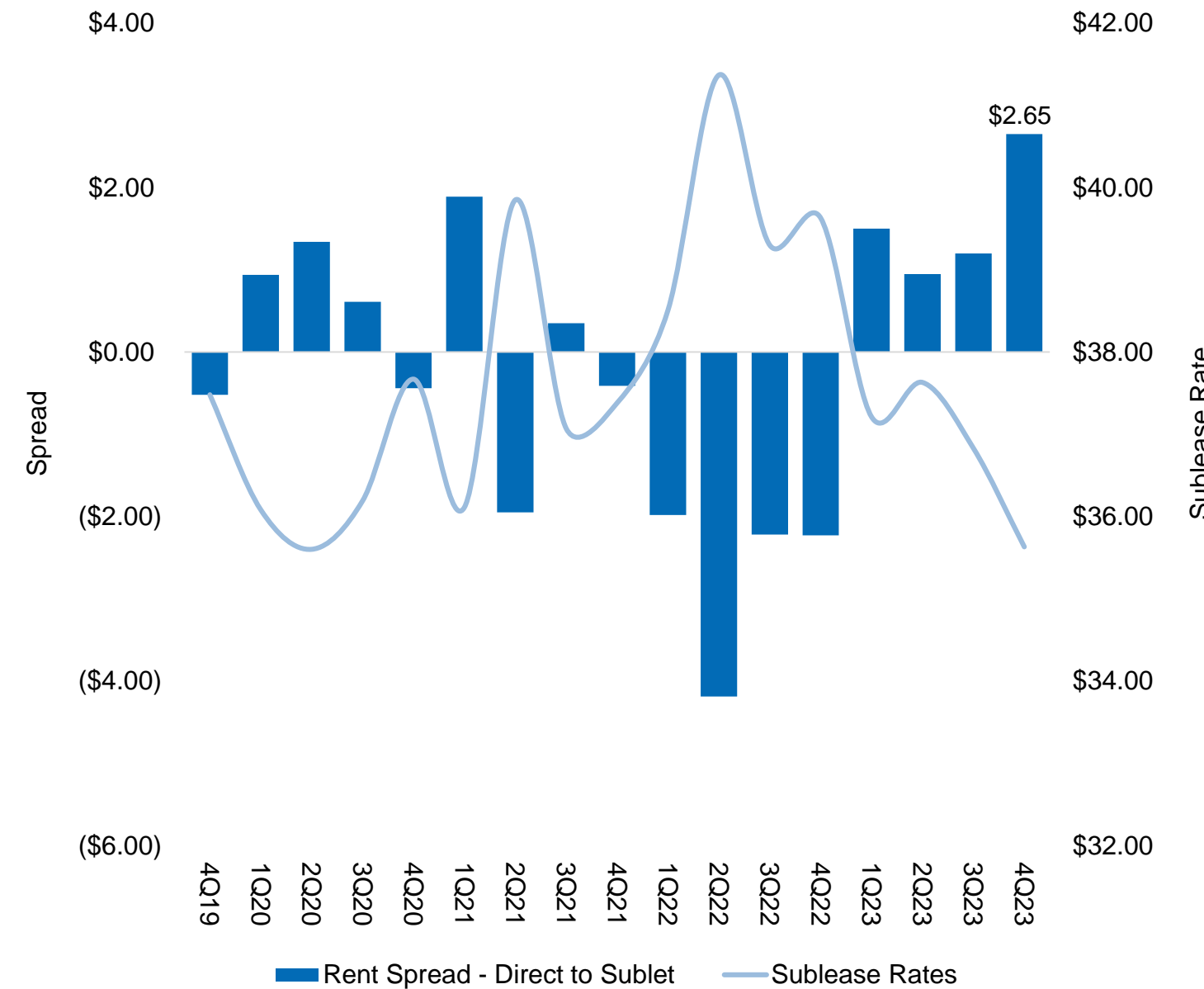
# Rent spread between Class A and B buildings Has Narrowed Over Time

The 'flight-to-quality' trend amid the office sector intensified in 2023, and several property owners invested in upgrading their product and amenities. While the full, long-term effects of the post-pandemic hybrid working model remain to be seen, some cracks are forming particularly in the Class B market among the less desirable buildings and locations.

**Class A and Class B Asking Rents**



**Sublease Rates**



Source: Newmark Research

# Financial Headwinds and a Shift Towards Hybrid Models Caused a Slowdown in Leasing

More companies reassessed their office spaces and real estate needs in 2023. Consolidations and downsizings comprised 31% of the total leasing activity this year, compared with 14% in 2022 and 10% in 2021. Conversely, tenant expansions shrank to 10% of the total leasing, versus 16% and 11% in 2022 and 2021, respectively.

## Notable 2023 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Purdue Pharma	201 Tresser Boulevard	Stamford CBD/Train	Renewal	103,733
<i>This is the second (short-term) renewal signed by Purdue since downsizing in early 2020</i>				
Gen Re	400 Atlantic Street	Stamford CBD/Train	New Lease	97,359
<i>Anchor tenants including Gen Re, AXA and Cara Therapeutics, were amongst the deals that kicked off George Comfort &amp; Son's repositioning of 400 Atlantic Street</i>				
Icon International	107 Elm Street – 4 Stamford Plaza	Stamford CBD	New Lease	60,826
<i>After vacating 4 Stamford Plaza and relocating to Greenwich in 2017, Icon will be moving back to RFR's Stamford Plaza complex, occupying the same top two floors they initially vacated</i>				
The Hubbard Day School	68 Southfield Avenue – Two Stamford Landing	Stamford Waterfront	Renewal/Expansion	51,021
<i>Second expansion for the school, which now occupies most of the property</i>				
AON	800 Connecticut Avenue 1 Market Street	Norwalk Darien	Short-term Lease – Temporary (swing) space New Lease	40,013 25,856
<i>Consolidating its Stamford and Norwalk offices into new construction space in Darien, reducing its footprint by 67%</i>				

## Notable Q4 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
The Hubbard Day School	68 Southfield Avenue – Two Stamford Landing	Stamford Waterfront	Renewal/Expansion	51,021
AON	800 Connecticut Avenue	Norwalk	Short-term Lease – Temporary (swing) space	40,013
Advanced Radiology	1 Corporate Drive	Shelton	Expansion	29,100
Terex Corporation	301 Merritt 7	Norwalk	New Lease	24,757
Lanxess Energizing Chemistry (Chemtura)	2 Armstrong Road	Shelton	Renewal	22,449

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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