

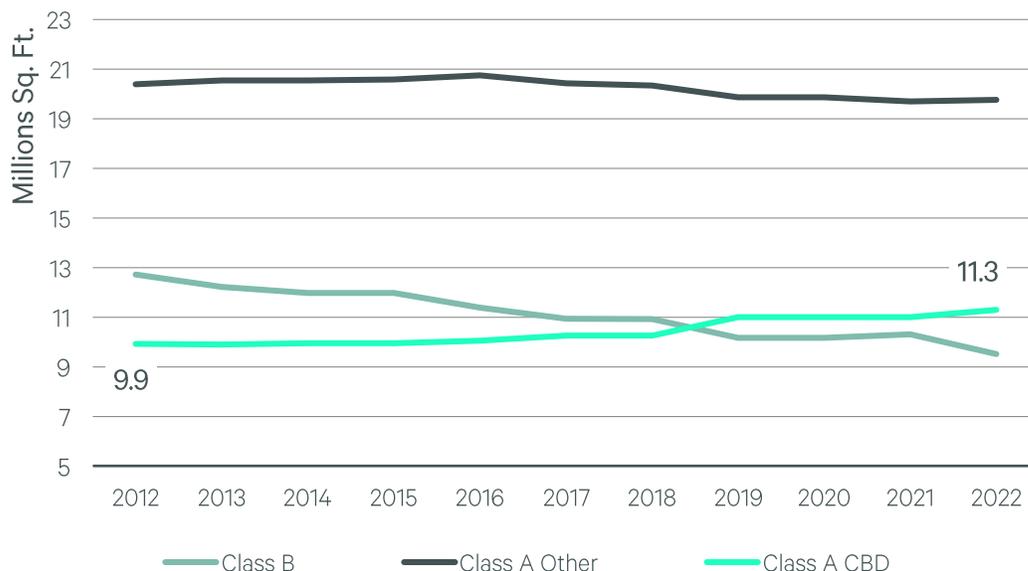
Flight-to-Quality: Demand Concentrates in Class A Space with a Focus on CBD Submarkets

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Fairfield County experienced a gradual shift in leasing over the past ten years, with Class A space—especially located in CBD zones in Stamford and Greenwich—capturing an increasing share of leasing activity. This flight-to-quality has altered the landscape of office inventory in the market, spurring a wave of conversions and redevelopments that has reduced the inventory of older suburban Class B and C space, as well as encouraging a handful of new Class A developments in central locations near transit.

The total office inventory in the Fairfield market has declined steadily over the past ten years, as more Class B office properties—typically in the non-CBD areas—have been converted or demolished for other uses. Fairfield County has seen a 25% reduction of footage of Class B product since 2012.

FIGURE 1: Change in Class A Share of Inventory | 2012 - 2022



Source: CBRE Research. Data as of Q2 2022.

FIGURE 2: CBD Class A Leasing Share | 2012 - 2022



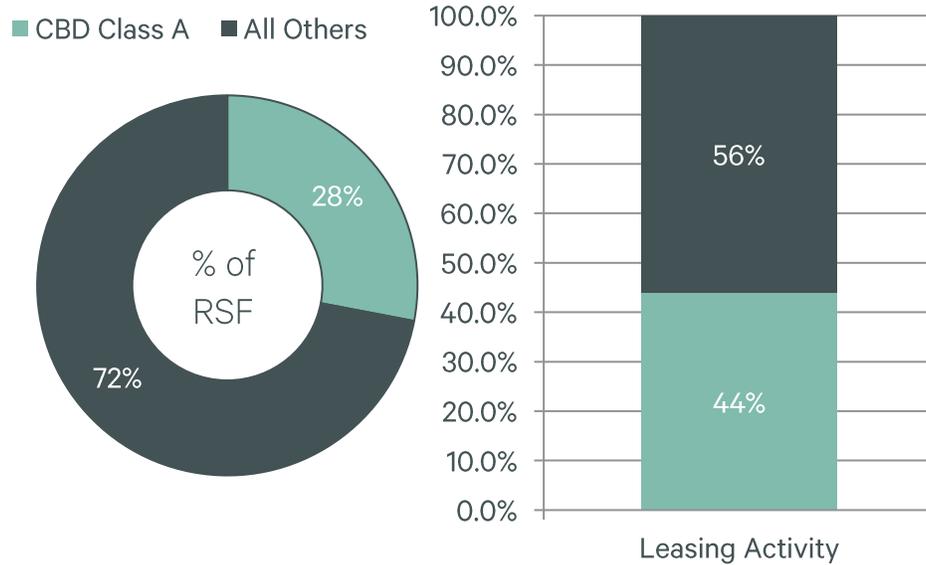
Source: CBRE Research. Data as of Q2 2022.

At the same time, close to a million sq. ft. of new developments has caused a 3% increase in total Class A inventory, led by the construction of Charter Communications’ new headquarters in Stamford CBD. The combined impact of these additions and subtractions has been a 6% net reduction in overall office inventory. And, as the size of the market has been reduced, the overall quality of the space in the market has increased, with Class A space in prime CBD submarkets growing from 23% to 28% of the total stock.

Historically, CBD Class A leasing activity has always outpaced its portion of Fairfield’s total inventory. In a study of the past ten years, the share of total leasing activity that occurred in Class A CBD space was 33% prior to the pandemic, when such space only made up 24% of Fairfield’s total inventory. This high-quality space has always been popular with the financial services industry—the perennial driver of activity in the market—and which has provided 36% of all leasing since Q2 2020.

This flight to quality trend intensified during the pandemic. From 2020 through Q2 2022, Class A space in the CBD markets has captured 44% of all leasing activity, while now accounting for a somewhat greater 28% share of total office stock. In the current market environment, occupiers show increasing appetite for premium space with access to amenities and transportation. The strong occupier trend of flight-to-quality has spurred a steady increase in leasing within the CBD Class A property segment over the past decade, while all other segments of the market have seen leasing volumes decline over time.

FIGURE 3: CBD Class A Share of Inventory and Leasing Activity | Q2 2020 – Q2 2022



Source: CBRE Research. Data as of Q2 2022.

Despite stronger leasing, Class A availability in the CBD submarkets remains high, at 28.5%. That figure is up 610 basis points (bps) from 2019, but still down 250 bps from the peak CBD Class A availability in 2017. Before 2021, Class A CBD availability rates were higher than Fairfield’s overall Class A availability due in part to the loss of some major occupiers in the wake of the financial crisis. Since 2021, CBD Class A availability has fallen below the availability of other Class A within Fairfield County. The majority of that available space is located within Stamford CBD—its Class A availability rate sits at 32.8%. However, amongst the trophy assets nearest the train station availability is a much lower 20.7%, reflecting the importance of proximity to mass transit. Greenwich CBD is even tighter still— after two years of strong leasing—with availability at only 4.2%, the lowest rate of any submarket in the New York tri-state area and its lowest rate in more than 10 years.

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