

Future office conversion drove positive absorption in Q3

▼ 26.2%

Availability Rate

▲ 472,688

SF Net Absorption

▼ 262,737

SF Leasing Activity

▼ \$35.13

PSF Average Asking Rent

Note: Arrows indicate change from previous quarter.

QUICK FACTS

- Quarterly leasing activity totaled 263,000 sq. ft., down 18% from Q2 2023 and 38% behind the five-year quarterly average.
- Year-to-date leasing activity totaled 1.07 million sq. ft., down 19% from the same time last year.
- The availability rate decreased to 26.2%, down 120 basis points (bps) from Q2 2023 and down 80 bps from a year ago.
- Quarterly net absorption was positive 473,000 sq. ft., bringing year-to-date absorption to positive 497,000 sq. ft.
- The average asking rent was \$35.13 per sq. ft., down 2% from the prior quarter and down 1% from one year ago.

Market Overview

The Fairfield County office market recovery stumbled a bit in the third quarter of 2023. The market notched 263,000 sq. ft. of leasing activity, down 18% from the prior quarter, 38% behind the five-year quarterly average and the lowest total since Q2 2020. However, net absorption was positive 473,000 sq. ft., driven primarily by the 457,000 sq. ft. withdrawal at 1 Elmcroft Road in Stamford, which is slated for conversion to multifamily. The reduction in available office supply pushed availability down 120 bps to 26.2%—the lowest level since Q4 2021.

Despite reduced activity, the Stamford CBD still provided the most leasing amongst Fairfield’s submarkets and combined with withdrawals, managed 595,000 sq. ft. of positive absorption. Availability dropped 570 bps quarter-over-quarter to 23.7%—the lowest it has been since Q4 2019.

Fairfield County’s average asking rent fell 2% quarter-over-quarter to \$35.13 per sq. ft. The Greenwich CBD saw a 5% drop from the prior quarter to \$108.80 per sq. ft. as space was repriced amid slowing activity. Despite a 90 bps increase in availability from last quarter, the submarket’s 9.6% availability is still the tightest submarket in the Tri-State area.

Economic Conditions

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. Nevertheless, headwinds such as higher oil prices, the resumption of student loan payments, and a weakening global economy are all intensifying while the squeeze from elevated interest rates is at its maximum.

Southwest Connecticut’s employment landscape diverged for office-using and non-office using employers in Q3 2023. The area’s overall employment count grew by 1,600 workers (+0.4%) over Q2 2023 while office-using employers (OUE) shed 1,700 positions (-1.5%). Year-over-year, Southwest Connecticut’s total employment increased by 6,400 positions (+1.6%) compared to a decline of 3,200 office-using positions (-2.8%).

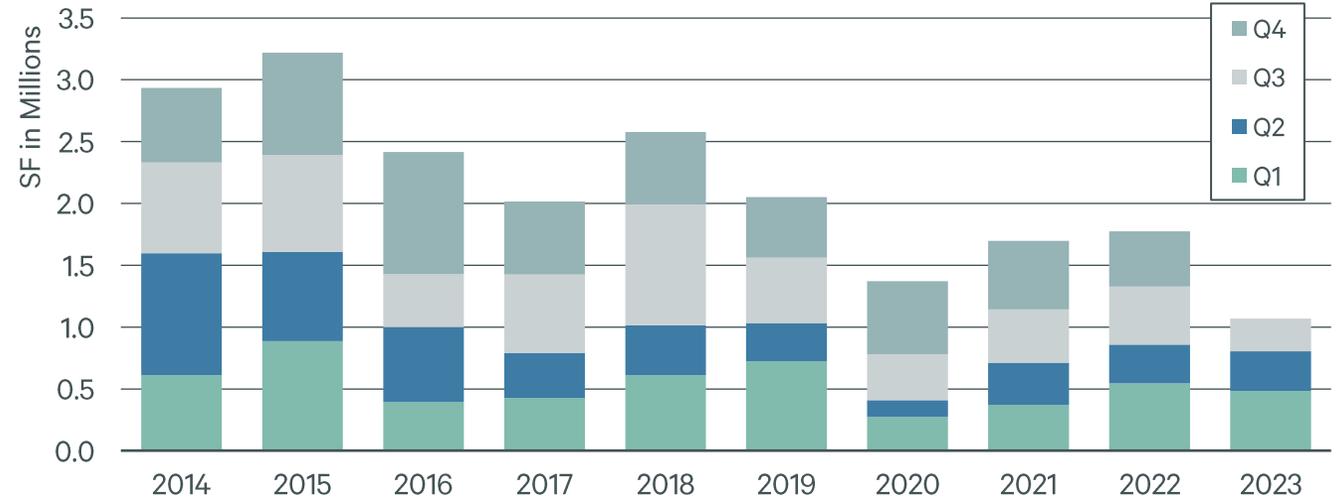
Among office-using sectors, professional and business services experienced the steepest payroll cut quarter-over-quarter with 1,800 positions let go in Q3 (-2.7%) followed by information with a reduction of 200 positions (-1.2%). Financial activities gained 300 positions in Q3 (+0.3%). Connecticut has recovered 97.7% of its pre-pandemic office-using employment.

Connecticut’s overall unemployment rate currently stands at 3.8%, up from 3.6% at the end of Q2, and even with the national unemployment rate of 3.8%. Although CBRE expects economic growth to deteriorate, it is likely that real estate valuations will stabilize during H1 2024.

Leasing Activity

The Fairfield County office market accumulated 263,000 sq. ft. of leasing activity in Q3 2023, down 18% from the prior quarter and 38% behind the five-year quarterly average. New leasing in the third quarter was limited, with only one new transaction over 20,000 sq. ft.—and six of the top 10 transactions were renewals.

FIGURE 1: Historical Leasing Activity



Source: CBRE Research, Q3 2023.

FIGURE 2: Top Transactions | Q3 2023

Size (Sq. Ft.)	Deal Type	Direct/ Sublet	Tenant	Address	Submarket
103,713	R	D	Purdue Pharma L.P.	201 Tresser Boulevard	Stamford CBD
20,406	L	S	Key Bank of New York	3 Corporate Drive	Fairfield East
19,909	R	D	Yankee Entertainment and Sports Network	250 Harbor Drive	Stamford N/CBD
18,600	L	D	Octagon Marketing & Athlete Representation, Inc.	400 Atlantic Street	Stamford CBD
18,162	R	D	Engelhart	400 Atlantic Street	Stamford CBD

Source: CBRE Research, Q3 2023. Lease (L), Renewal (R), Expansion (E), Renewal and Expansion (RE), Direct (D), Sublet (S).

Despite reduced activity, flight-to-quality remains in effect across Fairfield. Leasing activity was concentrated in Class A space, with those buildings accounting for 76% of leasing in Q3. The Stamford CBD led all submarkets in leasing for the third consecutive quarter, reaching 90,000 sq. ft. of activity—down 54% from Q2 and down 43% from the five-year quarterly average. Stamford’s largest new lease of the quarter was a relocation to 400 Atlantic Street, currently undergoing renovation. This asset has secured the largest new lease in the market each of the past two quarters, a testament to the desire for quality renovated product in desirable locations.

Elsewhere in the county leasing activity was even more muted. The Greenwich CBD notched 26,000 sq. ft. of activity, 33% below the five-year average but a 14% improvement on the prior quarter.

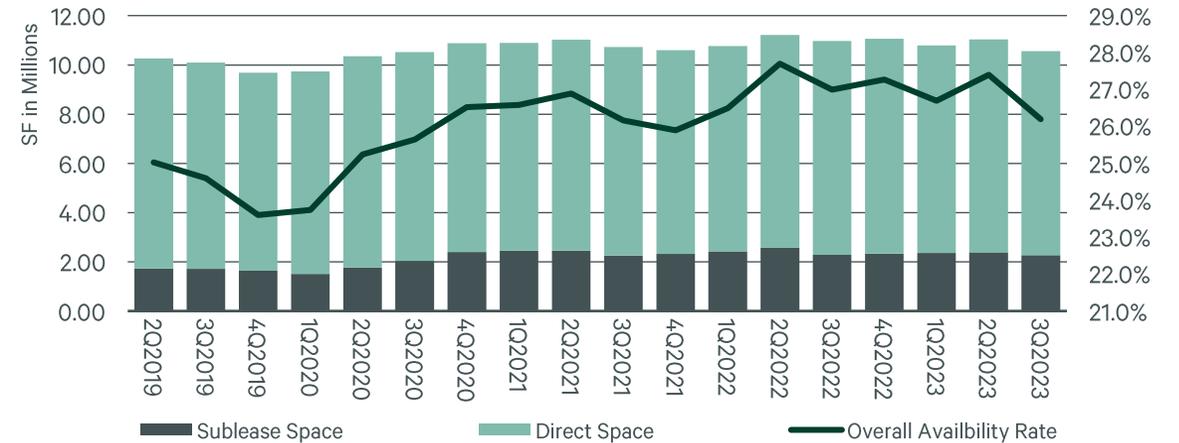
The more remote suburban submarkets also tallied leasing figures below their respective five-year averages. Non-CBD zones struggled in the third quarter: Stamford non-CBD saw leasing activity of 6,000 sq. ft., 84% below the five-year quarterly average and the lowest figure since Q2 2020, while Greenwich non-CBD experienced 22,000 sq. ft. of leasing—15% below the five-year average. Central Fairfield reached 55,000 sq. ft. of leasing activity, driven by transactions under 15,000 sq. ft. Fairfield East notched 44,000 sq. ft. of leasing in the quarter, driven by Key Bank’s 20,000 sq. ft. relocation to 3 Corporate Drive in Shelton. Fairfield North more than doubled Q2’s total but its 19,000 sq. ft. of leasing in Q3 was short of the five-year quarterly average by 2%.

FIGURE 3: Quarterly Leasing Activity by Submarket



Source: CBRE Research, Q3 2023.

FIGURE 4: Availability Rate | Direct vs. Sublease Breakdown



Source: CBRE Research, Q3 2023.

Net Absorption and Availability

Supply decreased in Fairfield County in Q3 and pushed the availability rate down 120 bps quarter-over-quarter to 26.2%. Net absorption was positive 473,000 sq. ft. primarily due to the withdrawal of 457,000 sq. ft. at 1 Elmcroft Road, in Stamford, in anticipation of a multifamily conversion—the latest in a years-long trend that has been steadily reducing inventory and availability in the county.

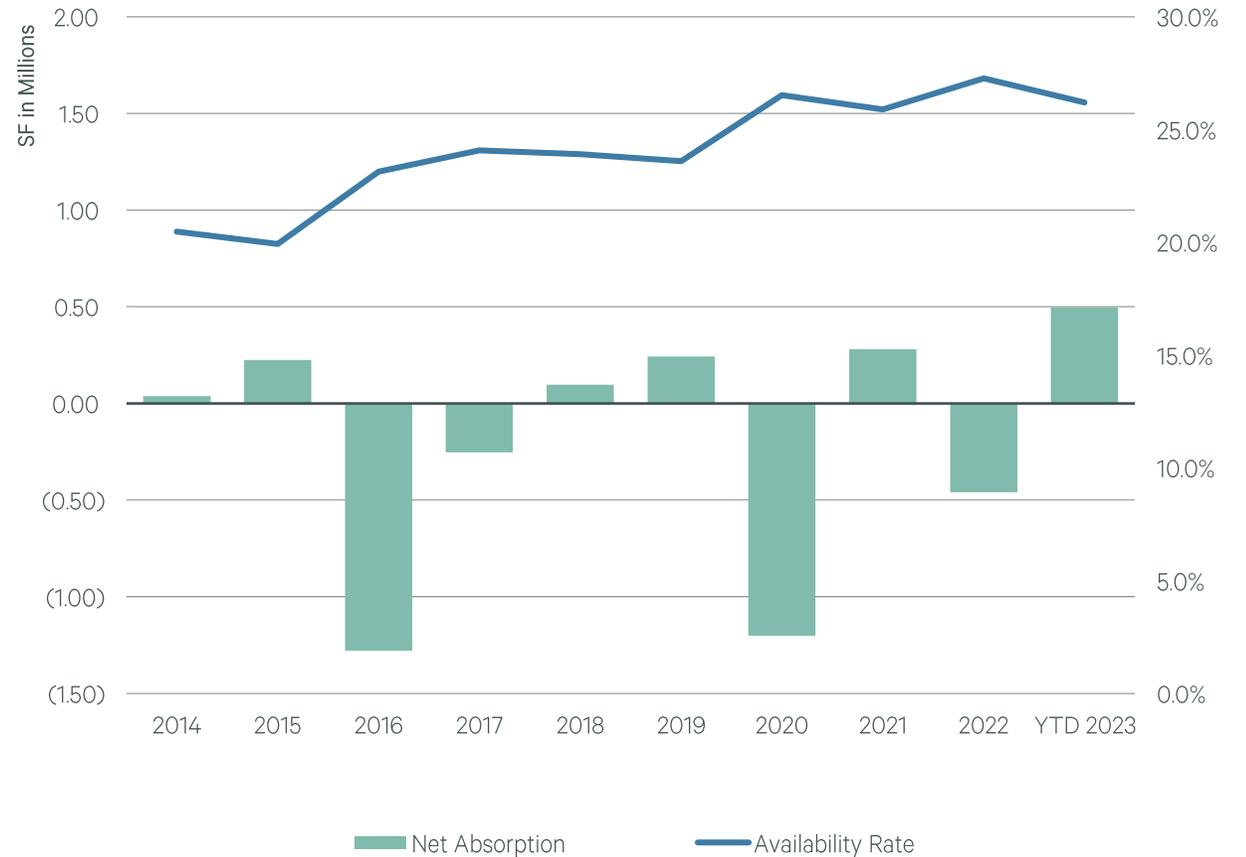
Four of Fairfield’s seven submarkets experienced positive absorption, with the Stamford CBD providing the most with 595,000 sq. ft., driven by leasing and the aforementioned withdrawal. Availability dropped 570 bps quarter-over-quarter to 23.7%—the lowest it has been since Q4 2019. Greenwich non-CBD managed positive absorption of 60,000 sq. ft., due to space withdrawals at Greenwich Office Park and limited space additions which pushed the availability rate down 280 bps quarter-over-quarter to 20.3% Fairfield East experienced positive absorption of 47,000 sq. ft., corresponding with leasing activity as there were essentially no space additions during Q3. Availability came down 80 bps quarter-over-quarter to 25.2%, after the submarket reached its all-time high in Q2.

Central Fairfield witnessed the lowest absorption in Q3 with negative 164,000 sq. ft., driven by several space additions 30,000 sq. ft. or larger at Merritt 7 and a 41,000 sq. ft. space at 45 Glover Avenue. Subsequently, the availability rate rose 170 bps quarter-over-quarter to 30.3%. The Stamford non-CBD posted negative absorption of 58,000 sq. ft. due to a combination of space that came available at 470 West Avenue and a dearth of leasing activity. Greenwich CBD’s smaller space additions brought absorption to negative 19,000 sq. ft. in Q3, and increased availability 90 bps to 9.6%.

Average Asking Rent

Fairfield County’s average asking rent was \$35.13 per sq. ft., down 2% quarter-over-quarter and down 1% year-over-year. Only two submarkets experienced changes of any note in Q3.

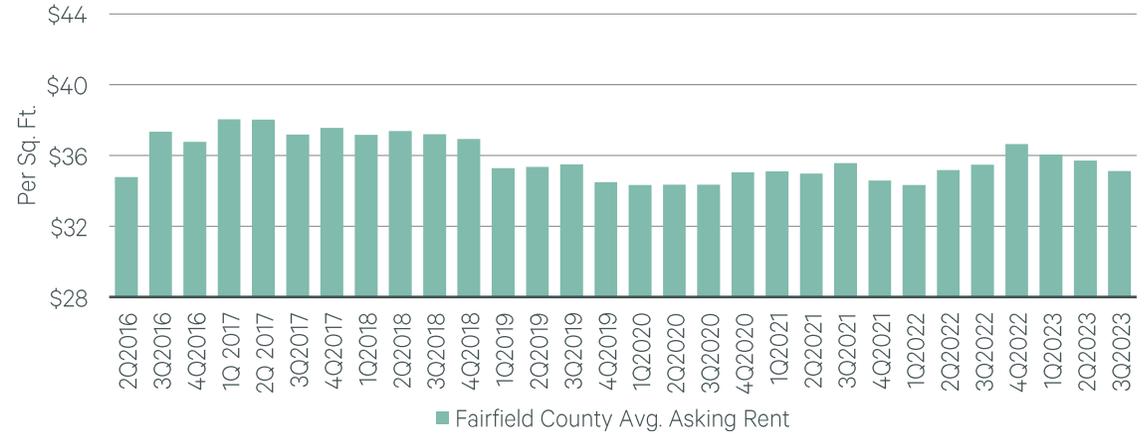
FIGURE 5: Annual Absorption and Availability Rate



Source: CBRE Research, Q3 2023.

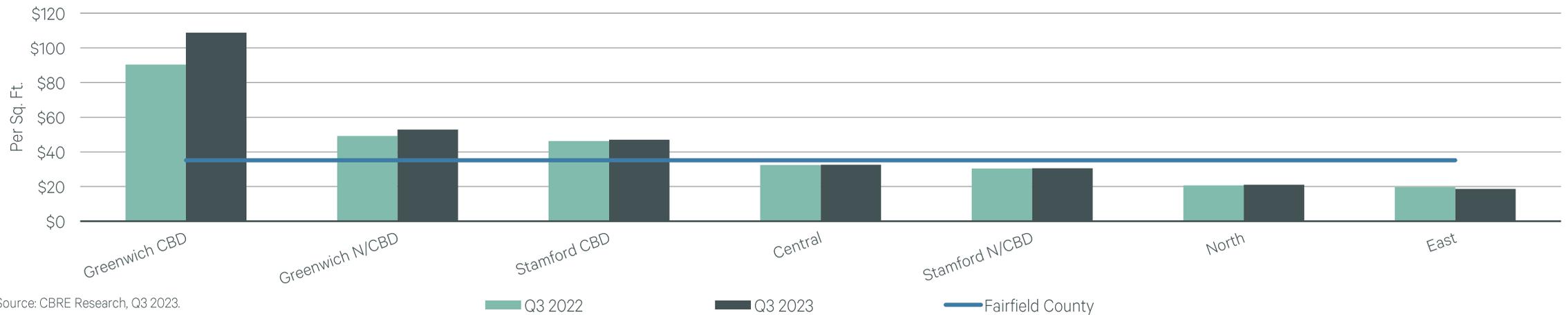
The Greenwich CBD saw the most substantial change as average asking rent fell 5% to \$108.80 per sq. ft. as spaces in prime assets were repriced downward. Despite the quarterly dip, average rent in the submarket is still up 20% year-over-year. Central Fairfield experienced a modest 2% drop quarter-over-quarter due to downward repricing on 190,000 sq. ft. of space at 800 Connecticut Avenue in Norwalk.

FIGURE 6: Average Asking Rent | Quarterly Historical



Source: CBRE Research, Q3 2023.

FIGURE 7: Average Asking Rent | By Submarket



Source: CBRE Research, Q3 2023.

FIGURE 8: Q3 2023 | Market Statistics

Submarket	Market Rentable Area (MSF)	Total Available (MSF)	Availability Rate (%)	Vacancy Rate (%)	Net Absorption (SF)	Leasing Activity (SF)	Average Asking Rent (\$/SF/Year)
Greenwich CBD	2.14	0.20	9.6%	9.3%	(18,963)	25,973	\$108.80
Greenwich Non-CBD	2.14	0.43	20.3%	19.6%	59,863	22,002	\$52.88
Stamford CBD	10.56	2.51	23.7%	22.8%	594,704	89,665	\$47.01
Stamford Non-CBD	6.12	2.22	36.3%	34.9%	(58,443)	6,076	\$30.61
Central Fairfield	9.71	2.94	30.3%	27.2%	(164,061)	55,498	\$32.53
Eastern Fairfield	6.27	1.58	25.2%	25.2%	46,913	44,238	\$18.70
Northern Fairfield	3.41	0.67	19.7%	19.3%	12,675	19,285	\$21.04
FAIRFIELD COUNTY	40.36	10.57	26.2%	24.9%	472,688	262,737	\$35.13

Source: CBRE Research, Q3 2023.

Market Area Overview

Definitions

Availability: Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction.

Asking Rent: Weighted average asking rent.

Leasing Activity: Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing, but excluding renewals.

Leasing Velocity: Total amount of sq. ft. leased within a specified period of time, including new deals, expansions, and pre-leasing and renewals.

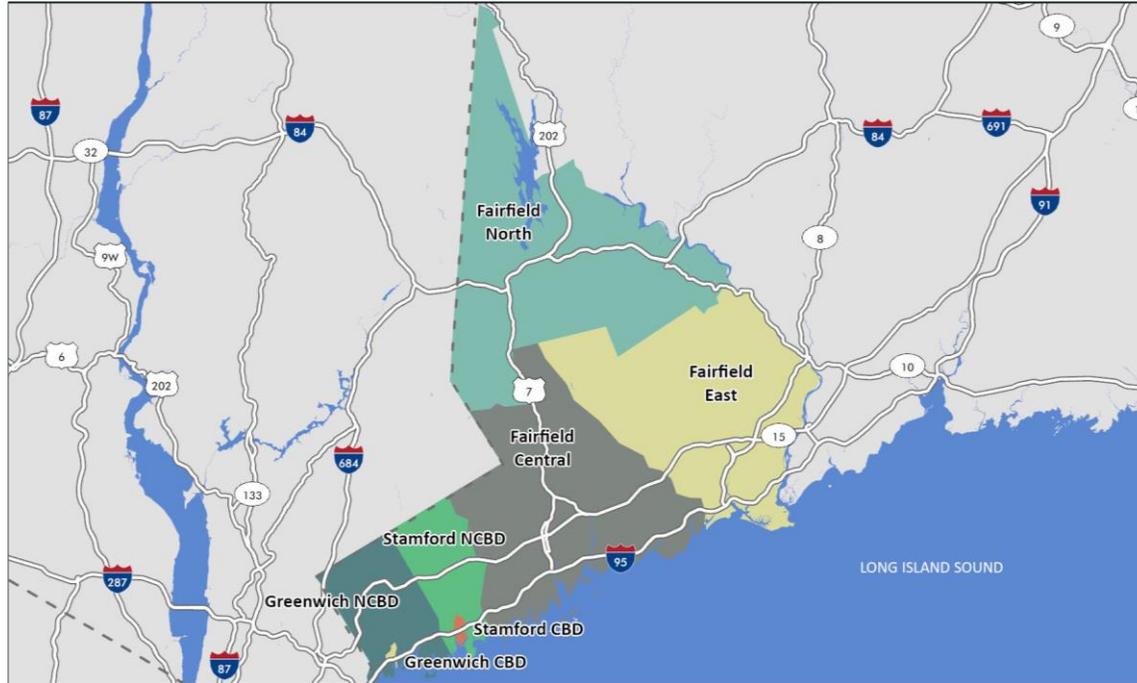
Net Absorption: The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

Vacancy: Unoccupied space available for lease.

Survey Criteria

CBRE's market report analyzes Fairfield County's fully modernized office buildings that total 20,000 SF or larger, Class A and B only, multi-storied, conventionally modernized, and not owned and occupied by a government or medical institution. New construction must be available for tenant build-out within 12 months. CBRE assembles all information through telephone canvassing and listings received from owners, tenants and members of the commercial real estate brokerage community.

Market Area Overview



Submarket	Total Stock (MSF)
Greenwich CBD	2.14
Greenwich N/CBD	2.14
Stamford CBD	10.56
Stamford N/CBD	6.12
Central Fairfield	9.71
Eastern Fairfield	6.27
Northern Fairfield	3.41
FAIRFIELD COUNTY	40.36

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