

INVESTMENT FORECAST

Office
New Haven-Fairfield County

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2022

Metro Absorption Holds Positive Through the Pandemic; Concessions Create Opportunities for Tenants to Enter

Market records job growth; more positives on the horizon. After suffering an acute drop in employment early in the health crisis, the metro observed gains in office-using sectors last year, breaking a five-year-long decline in the segment's headcount. While current momentum could subside, recent corporate relocations should help maintain downward pressure on vacancy. Swiss tobacco giant Philip Morris announced a move last year from its current Manhattan headquarters to an innovation center in Stamford's CBD, coinciding with an intra-market move to the same area by clean energy provider Altus Power. In addition, shifting tenant preferences to favor facilities in suburbs with urban-like amenities such as walkability and access to mass transit set Fairfield County submarkets in the sights of companies seeking to trade higher-cost New York City leases for space within commuting distance. New Haven's office stock also benefits from its proximity to Yale's Main Campus and Medical Center, allowing the eastern half of the market to take advantage of the nationwide life sciences boom. Next year's moderate supply pipeline is primarily in or adjacent to New Haven County, putting some upward pressure on availability here, but mitigating headwinds in western Fairfield County.

Recovering investment landscape offers deals for patient buyers. Transaction activity increased throughout 2021 but remains suppressed compared to pre-pandemic norms. Investors are most active in Fairfield County, which offers Class A properties concentrated in Greenwich and Stamford and comparatively lower-cost options inland. Buyers looking to execute long-term strategies will enter the market while space usage remains low, as uncertainty regarding the future of leasing has led to some downward pressure on pricing. This is coupled with high concessionary activity on the seller side, with all transactions conducted in Fairfield County last year reporting a negative gap between the initial asking price and the final sale price.

2022 Market Forecast

- Employment**
up 2.4%

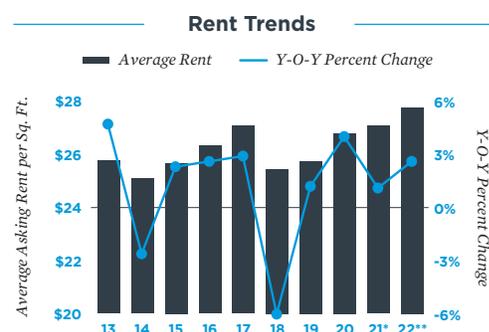
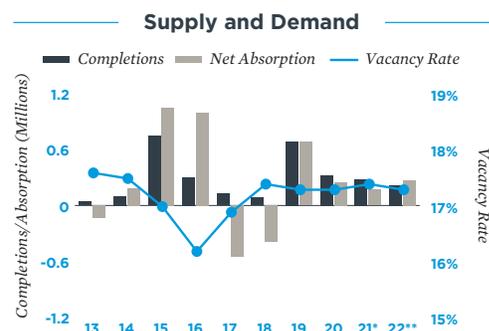
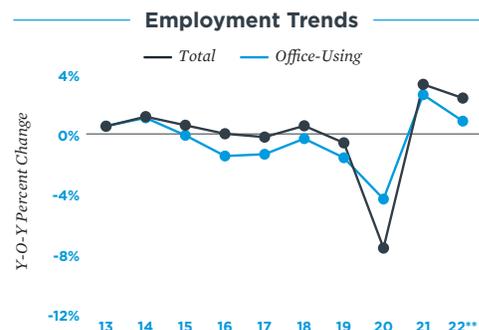
Job growth slows from 2021, with employers adding 18,000 positions. Approximately 1,500 will be in office-using sectors.
- Construction**
220,000 sq. ft.

The metro continues its historically conservative delivery schedule, with nearly all square footage headed for New Haven County or the areas immediately surrounding.
- Vacancy**
down 10 bps

Vacancy dips to 17.3 percent as the ongoing economic recovery spurs leasing activity, though concerns about the spread of COVID-19 variants may constrain new signings.
- Rent**
up 2.6%

Higher absorption and demand from relocating firms lead to rents climbing at a faster rate than last year's 1.1 percent uptick, as the asking rent reaches \$27.75 per square foot on average.
- Investment**

Investors capitalizing on Yale's links to the biotechnology sector may seek deals in New Haven, which offers an abundance of lower-cost properties, including many value-add options.



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.