MARKET REPORT

Office

New Haven-Fairfield County Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

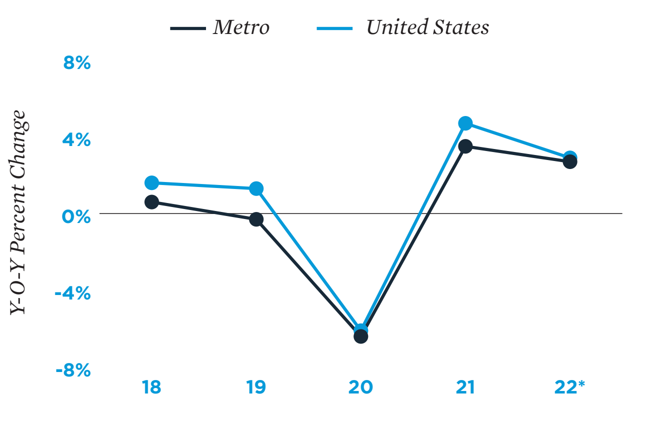
2Q/22

Older Class B/C Properties to Benefit as Connecticut Developers Stick to Built-to-Suit

Smaller leases propel Class B and C availability to new lows. The sharp slowdown in development that began in 2020 has heavily benefited the metro's existing inventory, particularly lower- and mid-tier properties. Class C buildings constitute the majority of New Haven County stock, where vacancy ended the first quarter at 7.8 percent, 340 basis points under the pre-pandemic rate. New tenants here were typically small-scale professional services firms seeking out sub-1,000-square-foot floor plans. However, Yale University's link to the biotech industry is attracting more life sciences firms to New Haven's CBD, a potential boon for mid- and larger-scale leasing.

Class A vacancy higher, but speculative development negligible. In the market's western half, the high proportion of amenity-rich stock has been more difficult to backfill, with over 25 percent of Class A space unoccupied as of the first quarter. On a brighter note, preleasing rates exceeding 94 percent on the handful of projects in Fairfield County's construction pipeline indicate that the near-term impact of new supply on overall vacancy should be minimal. Additionally, Philip Morris headlines a selection of employers entering the market from nearby metros, as well as intra-market moves and expansions from WWE, Altus Power and Webster Bank, indicating the commitment of the market's existing employers to maintaining a presence here. However, if Fairfield County vacancy remains in the current elevated state, concessionary activity could weigh more heavily on effective Class A rents here in the near term.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

21,000 JOBS
will be created

EMPLOYMENT:

The metro's traditionally office-using employment base will rise by 1.7 percent this year, as employers in such fields expand payrolls by 3,000 positions. This growth will elevate the sector's job count to its highest mark since 2019.

277,000 SQ. FT.
will be completed

CONSTRUCTION:

Following minimal supply additions last year, a small amount of projects are slated for finalization during the second half of 2022. New developments are primarily concentrated near the Stamford CBD.

20 BASIS POINT
decrease in vacancy

VACANCY:

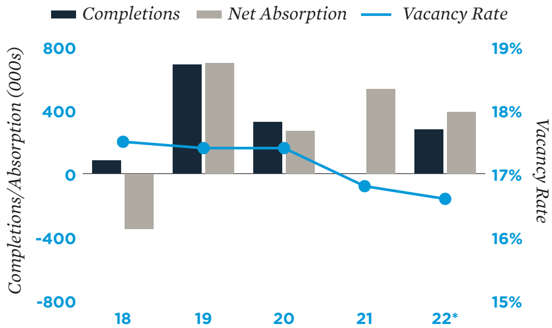
Building on last year's 60-basis-point compression, marketwide vacancy should end 2022 at 16.6 percent. Sparse speculative development for the forseeable future will alleviate supply-related pressure on Class A and B vacancy rates.

1.5% INCREASE
in asking rent

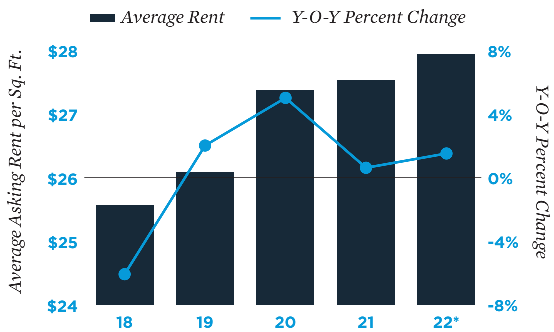
RENT:

Tempered construction activity and steady leasing should facilitate an increase in the average asking rent to $27.94 per square foot by the end of this year, a new high for the market. Low availability in New Haven should aid rent growth here.

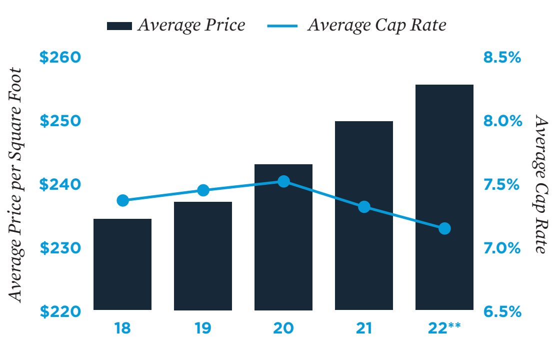
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

New Haven Office:
John Horowitz
First Vice President, Division Manager
Tel: (203) 672-3300 | john.horowitz@marcusmillichap.com

For information on national office trends, contact:
John Chang
Senior Vice President, Director | Research & Advisory Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

0 sq. ft. completed

- The metro has observed negligible completions since the start of 2021, with the current pipeline composed of a handful of projects.
- Prior to last year, the trailing five-year construction average exceeded 400,000 square feet. The active pipeline indicates finalizations should not pass this mark before 2024.

VACANCY

60 basis point decrease in vacancy Y-O-Y

- Availability ended the first quarter at 16.8 percent, the lowest level reported in the market since 2018.
- Vacancy compression was driven by leasing in lower office tiers, which dropped Class B/C availability 150 basis points to 10.4 percent in March. Class A vacancy rose 70 basis points, ending the same span at 24.8 percent.

RENT

0.5% increase in the average asking rent Y-O-Y

- A slight bump in the mean marketed rent was observed, which ended the first quarter at $27.19 per square foot.
- Competition for Class B/C space drove the average asking rent in the tier to $21.50 per square foot, a 2.6 percent year-over-year gain. The mean marketed rent for Class A space dropped 1.2 percent in the same span.

Investment Highlights

- Historically tight vacancy across lower- and mid-tier properties attracted more investors over the past year, resulting in the second-highest amount of deals in a 12-month span since the financial crisis. A competitive bidding environment generated the most substantial pricing increase since 2013, pushing the average sale price in the Class B/C segment to $237 per square foot. A multiyear high in Class A trading was also observed as investors anticipate demand for higher-end space to recover.
- In addition to robust fundamentals, the market retains one of the highest average yields among coastal Northeastern metros, sitting at 7.1 percent at the end of the first quarter. Moving forward, New Haven could see investors move capital from markets where the office recovery is lagging behind.
- Medical office investment hit an all-time high during the yearlong span ended March. Fundamentals were buoyed by a growing population of affluent seniors, supporting a high proportion of trades in the coastal corridor. Properties are typically changing hands at 7 percent to 9 percent yields, rates of return well above the national average for this sector.