



HOULIHAN LAWRENCE
COMMERCIAL GROUP



Commercial Market Report

FAIRFIELD COUNTY | FIRST QUARTER 2019

Executive Summary

FIRST QUARTER 2019

Dear Clients and Colleagues,

Fairfield county trends in the first quarter of 2019 reflect positive regional and national economic growth. Both Fairfield, and its economically linked New York neighbor Westchester County, are benefiting from the national employment trend with corporate growth and the addition of new companies entering the market.

Fairfield Office Leasing – Location Specific Strength Prevails

Greenwich Office leasing is proving nimble and responsive. Gross rents are down 23% from their peak achieved in the third quarter 2017 and prospective tenants have taken notice. According to Costar, net take-up of office space increased by more than 180,000 square feet, establishing this quarter as showing the best absorption in more than three years. Vacancy declined by 3% taking this submarket to the highest occupancy levels in the same period.

Greenwich is a high-powered financial hub, home of active and successful companies of all sizes with national and international reach. The firm SVP-Global, for example, headquartered at 100 W. Putnam Avenue, in downtown Greenwich is in an expansion mode. It has acquired several businesses from White Energy and thus is likely to have expansion requirements.

In contrast to Greenwich, the aggregate Fairfield Office fundamentals are softer. Occupancy was relatively stable but leasing rates declined. Central Business District (CBD) areas, such as Stamford, are faring better with occupancy gains and more competitive pricing.

Assets outside of urban clusters, including main street pedestrian traffic away from transportation hubs, are suffering most of the neglect from users and investors. This is a theme that is common across multiple geographies in the country.

Retail – Greenwich Remains Golden

Greenwich Retail had another quarter where net demand exceeded supply. Occupancy increased slightly and rents firmed-up. However, leasing activity was modest. More attractive occupancy costs have attracted retailers wishing to gain exposure the wealthy Greenwich shoppers. Niche stores, such as Warby Parker have recently (2018) opened new stores in Greenwich. It is notable that this company started in 2010 as an on-line only retailer marketing eyewear. They have since opened a select number of brick and mortar stores where high-end clients can try the product. The company has chosen Greenwich Ave., which offers abundant pedestrian traffic, for their first Connecticut store.

Fairfield County Retail trends are stabilizing after Landlords implemented price adjustments in 2018. Headwinds continue, however, with news of store closings uninterrupted. As in Greenwich, there are new concepts coming to the areas of Fairfield that provide the highest pedestrian traffic exposure. In addition, service providers relocating from obsolete office space and some successful expansions from existing retailers are also taking up new space.

Big box stores appear to be the greatest losers of occupancy with obsolete malls coming next. Landlords are definitively focusing on businesses that are deemed to be “internet resistant” which have a heavy service component or goods that the consumer prefers to touch and feel before completing a transaction.

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Investment Transactions Rebound

The pace of investment sales transactions in Fairfield County rebounded from last quarter. As in other areas of the Country, higher interest rates typically require a higher yield from the property (or a larger down-payment) to qualify for financing. Facing uncertainty, investors and financing partners are underwriting current and future real estate investment cash flows with the perspective that a downcycle may be around the corner.

Houlihan Lawrence Commercial Group looks forward to sharing our expert understanding of the market, and to providing professional advice as clients evaluate potential investments and dispositions. We strongly encourage owners and tenants to contact us for a complimentary assessment of their real estate.

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Fairfield Unemployment Continues a Declining Trend

FAIRFIELD COUNTY EMPLOYMENT AND INCOME STATISTICS - SEASONALLY ADJUSTED

Similar to Westchester and the rest of the country, Fairfield's unemployment statistics convey the picture of a tight labor market. The seasonal increase in unemployment observed in the graph preserves a declining trend observed for multiple years.

These labor statistics create a positive background for real estate assets.



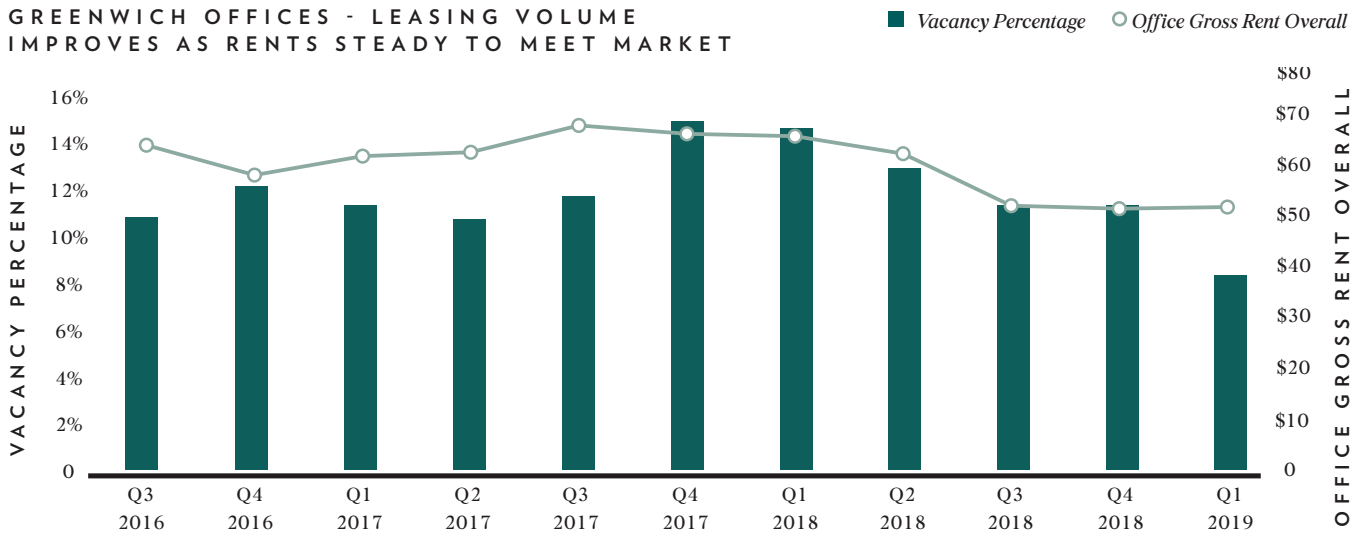
Sources: COSTAR, US. Bureau of Labor Statistics, Unemployment Rate and Fairfield's Median Household Income, CT. All data retrieved from FRED, Federal Reserve Bank of St. Louis; April 2019
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Office Space – Landlords Continue to Prioritize Occupancy Over Rental Rates

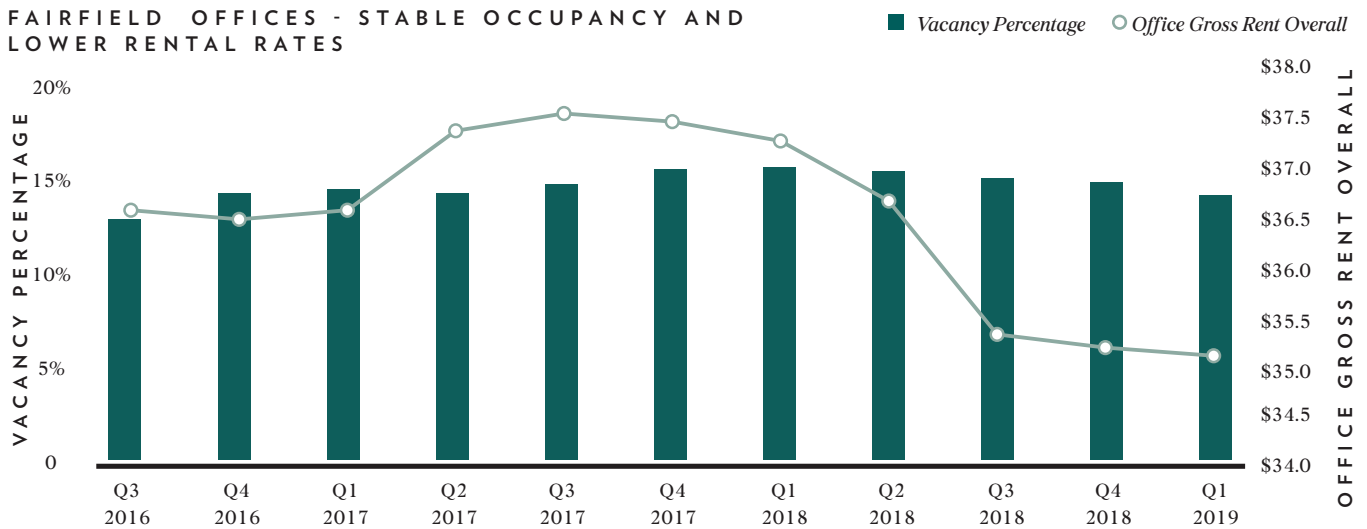
Greenwich has experienced a meaningful recovery in leasing volume and improvement in occupancy during the last quarter. A more attractive rent structure has encouraged tenants to take space in a market that continues to be an important financial hub and is coveted due to its accessibility.

Fairfield landlords have accepted a single digit decline in rental rates to hold on to occupancy. Stamford and Greenwich have the most updated asset pool – offering amenities valued by office tenants. As a result these two markets have experienced better leasing activity, while other office markets in Fairfield have languished.

GREENWICH OFFICES - LEASING VOLUME IMPROVES AS RENTS STEADY TO MEET MARKET



FAIRFIELD OFFICES - STABLE OCCUPANCY AND LOWER RENTAL RATES



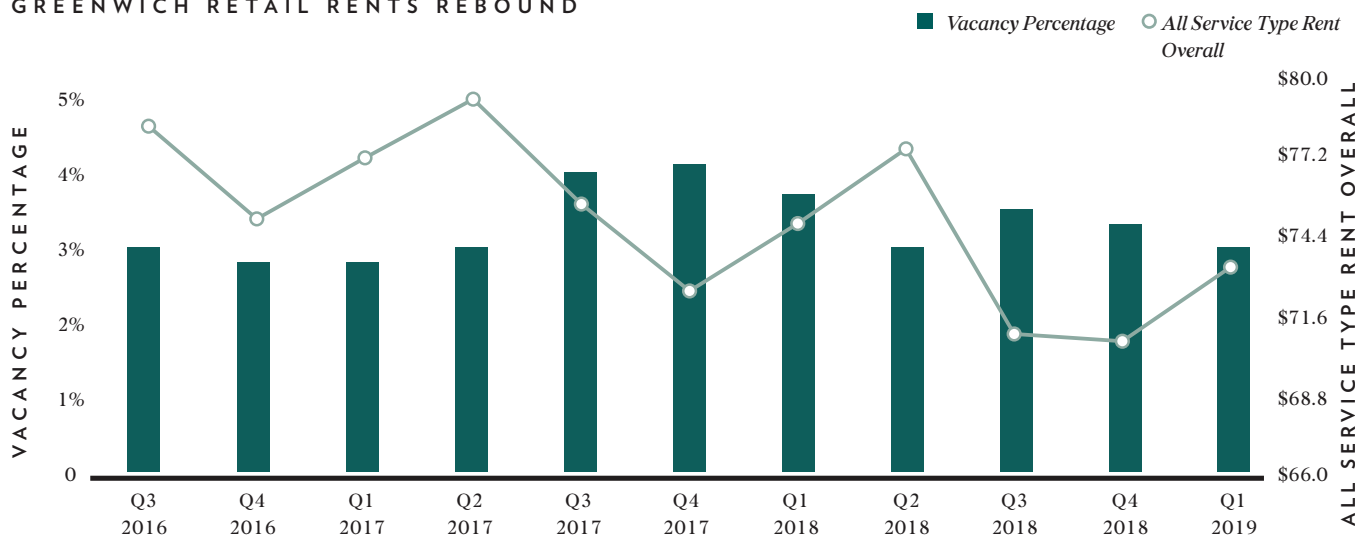
Sources: COSTAR, US Bureau of Labor Statistics, Data Reflects Fundamentals for Fairfield County and Greenwich office markets – April 2019
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Retail Landlords Demonstrate Flexibility and Seek to Maintain Occupancy

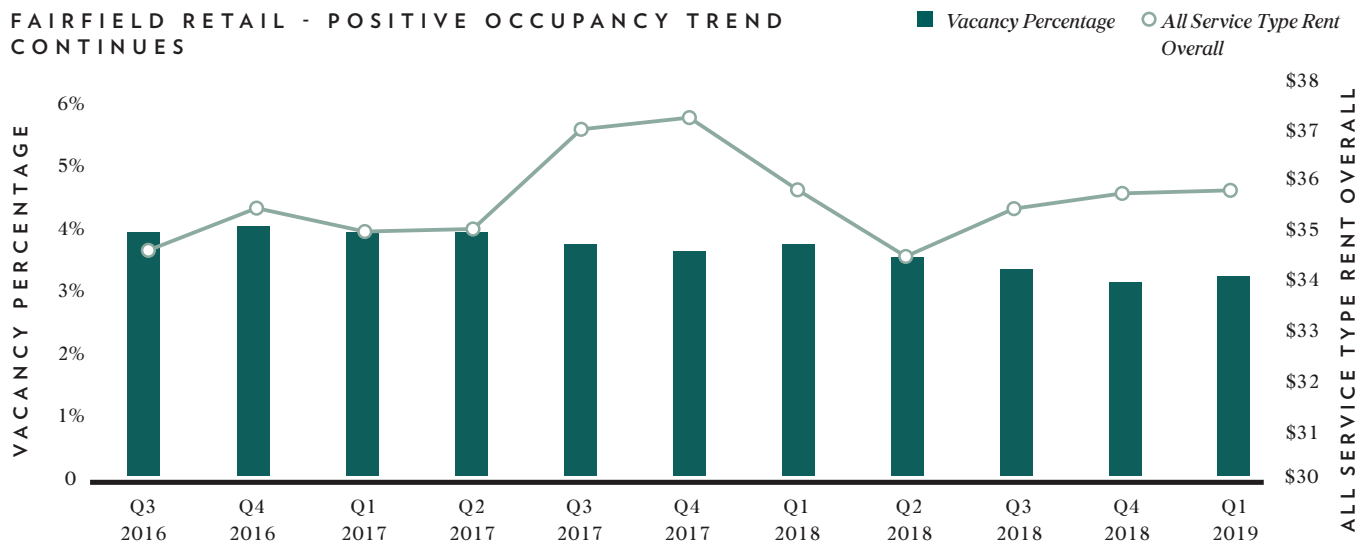
Profound changes in the way consumers purchase goods continues and is having an impact on markets across Fairfield County. Retailers appear to have rekindled their interest in Greenwich street retail, attracted by lower leasing rates. Occupancy has stabilized and rental rates have firmed benefiting from renewed activity.

Fairfield retail overall has been a relatively stable area of the market, but maintaining occupancy has become increasingly more challenging. Collaborative landlords that work with tenants to maintain occupancy has contributed to slightly better fundamentals in Q1-2019.

GREENWICH RETAIL RENTS REBOUND



FAIRFIELD RETAIL - POSITIVE OCCUPANCY TREND CONTINUES



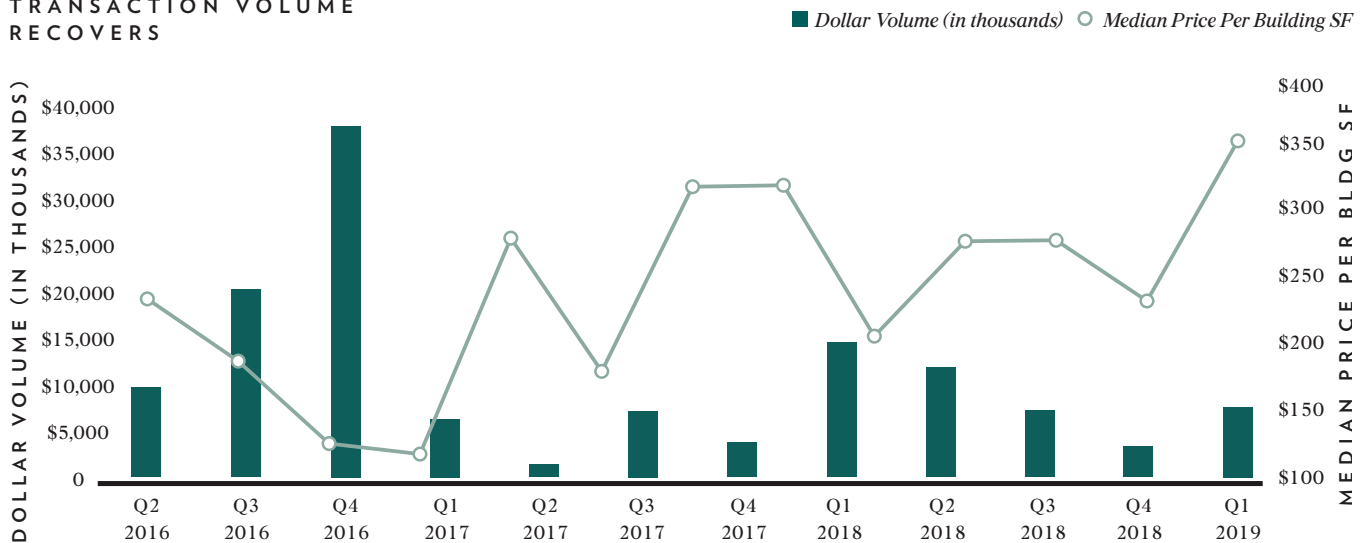
Sources: COSTAR, US Bureau of Labor Statistics, Data Reflects Fundamentals for Fairfield County and Greenwich office markets – April 2019
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Investment Activity for Fairfield County Rebounded Slightly in Q1-2019

Investment activity increased modestly in the first quarter, however, the transaction environment is more challenging and capitalization rates have inched upwards.

Interest rate increases and changes in consumer and corporate preferences impacting retail and office markets, are giving pause to investors. In addition, the macroeconomic environment and longevity of the economic cycle have become other meaningful sources of investor concern.

TRANSACTION VOLUME RECOVERS



Sources: COSTAR, US Bureau of Labor Statistics, Data Reflects Fundamentals for Fairfield County and Greenwich office markets – April 2019
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