

NEW HAVEN | OFFICE

Quarter 2 2017

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Drop in Demand from Schools Hits the Office Market

One of the largest categories of tenants in the New Haven office market is schools. Yale University leases hundreds of thousands of square feet in investor-owned buildings for administrative departments and academic programs. Charter schools – publicly funded but privately operated – have been big occupiers of office space in the city, most of it used for classrooms and other instructional purposes.

Another notable space user in this genre, one that might be a bit surprising to some people, is the New Haven Board of Education. Over the last 20 years or so the city has been engaged in a massive program of school construction and renovation. Forty-one schools have been built or refurbished over that time at a cost of \$1.5 billion, most of it furnished by the State of Connecticut. While the city owns all of these buildings, it does not own enough surplus real estate to supply temporary space during the two years or so that it takes to complete each school project. For that the Board of Ed leases privately owned properties, some of which are included in the inventory that serves as the basis for this report.

As is the case with most tenant classes, there is an ebb and flow in the volume of demand generated by schools. The charter school industry has carved out a solid niche in the city over the last two decades and its operators have purchased and renovated several buildings to house programs that were once located in rented space. In an effort to minimize cost, the Board of Ed tries to lease space only when it is needed to accommodate students from schools that are being rebuilt.

Over the last year and a half, a slackening in demand from schools has resulted in a significant increase in the vacancy rate for Class B buildings outside the Central Business District. Since the 1st quarter of 2016, vacant space in that category has climbed from 7.1 to 11.9 percent with negative net absorption of more than 80,000

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Market Indicators

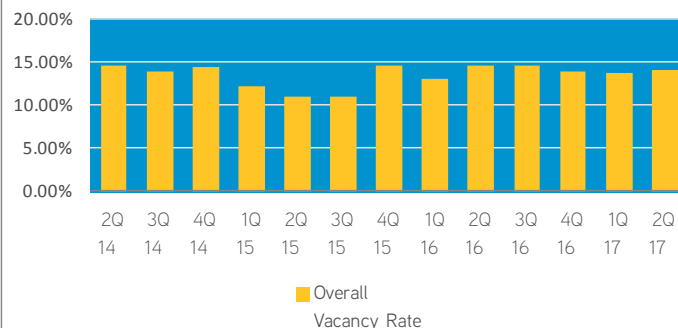
Relative to prior period

New Haven Q2 2017 New Haven Q3 2017*

Market Indicator	New Haven Q2 2017	New Haven Q3 2017*
VACANCY	↑	↓
NET ABSORPTION	—	+
CONSTRUCTION	↔	↔
RENTAL RATE	↓	↔

*Projected

Vacancy Rate by Quarter



For three years the New Haven office vacancy rate has remained in a range from 11 to 15 percent.



495 Blake Street, New Haven, CT

square feet. Much of the vacancy is concentrated in two properties, 495 Blake Street and 540 Ella Grasso Boulevard. The Blake Street building, just under 60,000 square feet, has been home to both charter schools and Board of Ed programs in recent years. It is now close to vacant and reported to be the object of a purchase agreement by a non-school space user. The property on Ella Grasso Boulevard is part of a 175,000-square-foot complex that has seen many tenancies by public and charter schools. A recent vacancy of 30,000 square feet represents the first available space there since the 1st quarter of 2013.

The new vacant space on Ella Grasso Boulevard was the major factor in pushing the citywide vacancy rate from 13.6 to 14.1 percent this past quarter. This reverses two quarters of gains for the market but keeps the vacancy rate within the fairly narrow range of 11 to 15 percent that it has stayed in for the last three years.

Significant transactions for the 2nd quarter include a 10-year, 13,000-square-foot deal for the penthouse floor of 900 Chapel Street, leased by The Connection Fund, a social services agency. Murtha Cullina, a Hartford-based law firm, leased 5,000 square feet at 265 Church Street, a.k.a. 1 Century Tower.

NEW HAVEN OFFICE VACANCY						
	INVENTORY	DIRECT AVAILABLE	SUBLET AVAILABLE	TOTAL AVAILABLE	NET ABSORPTION	VACANCY %
CBD						
CLASS A	1,854,265	160,604	0	160,604	16,243	8.7
CLASS B	1,260,081	87,791	0	87,791	(13,090)	7.0
TOTAL	3,114,346	248,395	0	248,395	3,153	8.0
NON-CBD						
CLASS A	687,052	284,677	40,260	324,937	1,722	47.3
CLASS B	1,814,867	194,983	21,831	216,814	(33,165)	11.9
TOTAL	2,501,919	479,660	62,091	541,751	(31,443)	21.7
TOTAL OFFICE MARKET						
CLASS A	2,541,317	445,281	40,260	485,541	17,957	19.1
CLASS B	3,074,948	282,774	21,831	304,605	(46,255)	9.9
TOTAL	5,616,265	728,055	62,091	790,146	(28,298)	14.1

Source: John Keogh - Colliers International

FOR MORE INFORMATION

John Keogh

Senior Broker | New Haven

+1 203 497 3953

john.keogh@colliers.com

Colliers International tracks occupancy levels in 58 office properties throughout the City of New Haven and reports the results on a quarterly basis. Buildings are included in the survey if they are intended for occupancy by more than a single tenant, contain at least 5,000 square feet of rentable office area, meet the generally accepted standards of a Class A or B facility and are occupied principally by non-medical space users. We appreciate the cooperation of the building owners, managers and rental agents who provide information for this report.

To receive this report regularly or for help leasing, buying or selling commercial real estate, please contact us.

Colliers International | New Haven
 205 Whitney Avenue, Suite 300
 New Haven, Connecticut 06511
 +1 203 562 5000
colliers.com/newhaven



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