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Impressions of Connecticut's commercial real estate market: Increased activity, office lagging

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The Connecticut Economic Resource Center's (CERC) SiteFinder Commercial Real Estate Index has shed some light on what the overall commercial real estate market conditions have been and gives us an idea of what the future expectations are for 2015.

The 4Q2014 survey indicates that respondents have had an increase in inquiries compared to the previous year, with 44% answering that they've completed more real estate transactions by the end of 4th quarter of 2014, than in 4th quarter of 2013.

While the majority of inquiries are from companies that are looking to add space, the current market conditions for the office sector have - and continue to be - affected by alternatives to traditional class A office space. Respondents indicate that interest in office space has been lagging, while industrial, retail, investment, and residential confidence is up.

With advancements in technology, an increasing population of those in the workforce have the ability to work remotely, alleviating the need for large square footage office space in a traditional setting. This means significant cost-savings for employers, but translates to an excess of vacant office space. Also, traditional office space is competing with more industrial flex space type business parks that can be retrofitted as office space, warehouse/distribution space, and also meet light manufacturing facility needs.

On CTSiteFinder.com, Connecticut's local source for free commercial real estate and demographic data to help businesses analyze a potential investment (developed and managed by CERC), we too have noted an uptick in searches for industrial properties over the last several months. A large percentage of site selector inquiries that we have been receiving, as well as postings on our CERC SiteFinder Active Needs Log, have consisted of prospects searching for flexible warehouse space and undeveloped large tracts of land for build-to-suit projects.

Overall, 75% of survey respondents had closed a deal with a Connecticut company in the last year, while 25% closed a deal with a company outside of the state.

There have been many mixed-use development projects that have taken place throughout Connecticut, and that activity will continue in 2015. These developments, which include multifamily residential options, are serving a demand for new and modern living space for those who are non-committal to purchasing a home or unable to do so; catering to a Millennial workforce. It also supports the Baby Boomer demographic that is interested in downsizing into smaller space that demand less maintenance and physical upkeep. These developments have the potential to offer new retail and office space that would appeal to businesses for a variety of reasons: such as new geographic location to offer their products and services, new property amenities, proximity to current and prospective clients, a chance at better property management, etc.

Respondents from the survey expect to see activity continue to increase throughout 2015, and more

than half expect sale and lease prices to rise. Also, 90% of respondents believe that access to financing is the same or getting better in comparison to this time last year. An increase in the access to financing is always a positive sign and a good indication that the banking industry feels confident in the stability of the economy. This will inevitably open the door for many more development projects, and continue to assist in the completions of numerous business expansion plans.

The most recent survey polled real estate professionals in all eight Connecticut counties, asking for opinions and perspective regarding local real estate conditions in both the residential and commercial markets. There were a total of 73 respondents who participated in the most recent survey, and included real estate brokers, real estate developers, bankers, appraisers, and economic development officials from around the state.

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