

FAIRFIELD COUNTY OFFICE MARKET

COVID-19 CAUSES DISRUPTION, BUT MARKET GAINING APPEAL IN SOCIAL DISTANCING AGE

The Fairfield County office market continued to navigate through uncharted territory as the first half of 2020 came to a close. Strict stay-at-home orders that shut down large swaths of the economy in March led to substantial decreases in market activity. This was reflected in second-quarter leasing volumes, which fell by 27.8% and 28.7% over the past year and the previous quarter, respectively. Year to date, the county lost a total of 315,793 square feet in occupancy, while the overall availability rate went from 26.8% last year to 27.4%.

On May 20, the state entered Phase 2 of its four-part reopening plan, which included outdoor dining, retail stores, malls and offices. With most quarantine mandates lifted, many tenants began to set re-boarding plans, though at reduced capacity and some staggered start times or set shifts. Others are opting to reopen in later months and a few others into the next year. Companies are still unsure how much space they will need as they reopen, but although space utilization rates remain to be seen, the most important factor they are considering is a reconfiguration of current space to a higher ratio of square feet per employee to encourage social distancing, while allowing for telework.

With this in mind, New York City-based firms are increasingly looking into suburban markets like Fairfield County to shift some of its employees out of the city. Throughout the second quarter, there were numerous inquiries coming out of Manhattan for short-term space with an emphasis on pre-built plug-and-play spaces. Executives and employees working in New York City and residing in the suburbs want to avoid getting on the train soon, especially those with a downtown transfer. As companies begin to open up, both employers and landlords in the city are faced with yet another challenge: how to safely transport people in elevators and manage the crowds waiting for them.

GREENWICH OF PARTICULAR INTEREST

The Greenwich market has been of particular interest to New York City firms since the height of the pandemic. Although most of those inquiries have yet to convert into signed leases, there were at least five COVID-19-related transactions that did come to fruition, while a few more were in the pipeline. One of those transactions was Owl Rock Capital Partners, which committed to 10,700 square feet at The Anchorage in the waterfront. Nearby, Edgewood Management subleased 9,412 square feet at 600 Steamboat Road, and Cramer Rosenthal McGlynn leased 7,345 square feet at 28 Havemeyer Place, near Greenwich Avenue.

CURRENT CONDITIONS

Countywide leasing volumes fell by 27.8% and 28.7% over the past year and the previous quarter, respectively.

New York City-based firms are increasingly looking into suburban markets like Fairfield County to shift some of its employees out of the city.

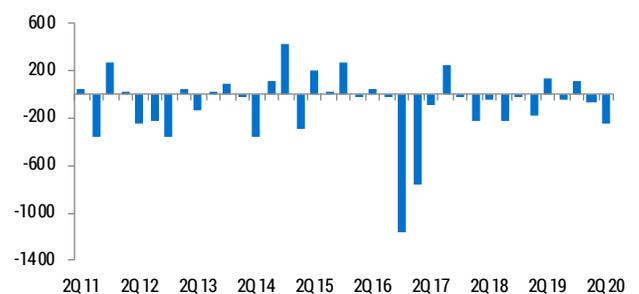
Companies are considering a reconfiguration of current space to a higher ratio of square feet per employee to encourage social distancing, while allowing for telework.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	40MSF	40MSF	40MSF	↑
Availability Rate	27.4%	26.8%	26.8%	↓
Quarterly Net Absorption	(240,132)	(75,661)	132,620	↕
Average Asking Rent	\$36.01	\$35.91	\$35.60	↔
Under Construction	649,063	649,063	0	↑
Deliveries	0	0	0	↑

As a result, absorption for Class A space in the Greenwich Central Business District market ended with positive 40,000 square feet for the quarter, while availability went from 15.2% last quarter to 14.2%. Year to date, leasing activity in Greenwich reached 150,000 square feet, of which 90,000 square feet occurred in the CBD. This was a year-over-year increase of 6.2%. With continued inquiries and tours this market could see more activity through year end, and the average asking rental rate will likely decrease as the higher-priced, quality blocks near the train may get absorbed first. As of the second quarter, the Class A average asking rent in Greenwich CBD stood at \$93.58/SF, down 3.8% from \$97.28/SF a year ago.

LATE STAGE LEASES AND RENEWALS

A lack of demand was felt throughout the rest of the county during the second quarter, but a few large new leases that were negotiated prior to the outbreak were executed. These included: Greenwich Education Group for 70,000 square feet at 201 High Ridge Road in Stamford Non-CBD; Bankwell Financial for 30,000 square feet at 258 Elm Street in New Canaan; and Cadenza Innovation for 17,000 square feet at The Ridge in Danbury. Two significant renewals signed in the Stamford CBD market: EY for 36,000 square feet at First Stamford Place; and McKinsey & Company for 24,000 square feet at Two Harbor Point. With no new major deals, leasing volumes in this market declined by more than 30.0% from both last quarter and last year, while availability went from 26.1% last year to 29.3%. Even though Stamford CBD has also been the focus of several out-of-market inquiries, pre-builts in the 5,000 square-foot to 10,000 square-foot range within walking distance to the train are not as easy to find.

The lack of demand in the second quarter was more evident in Norwalk, where almost no leasing took place. Availability in this market went up by a percentage point to 36.5% due to the addition of 45,000 square feet of sublease space by Crius Energy at 535 Connecticut Avenue. Another sublease came online at the Wilton Woods campus, where 29,000 square feet is being offered by Epsilon. All in all, occupancy in the South Central market retracted by 114,815 square feet in the second quarter.

WHERE WILL THE MARKET GO FROM HERE?

The long-term effects of the pandemic as it relates to the office market are still unknown. Demand in the near term will continue to be driven by lease rollovers. Those tenants with impending leases expiring will have to engage the market and make significant decisions about space needs, but the ones with an option to extend short term are likely to take that route in order to gain a clearer perspective of market conditions in a post-COVID world. Sublease availability, which is often an indicator of market stability, will be closely analyzed in the second half of the year. During the 2008-2009 recession, the county's sublease availability rate peaked at 5.1%. By quarter's end, this level ended at 4.6%, up from 4.2% in March of 2020 and from 4.4% a year ago. It is possible that a further rise in subleases could be offset by companies taking advantage of the flexibility such offerings present, especially furnished plug and plays. For now, business continuity decisions rest on the shoulders of leaders across all sectors as they try to safeguard employees and mitigate risks. Some will delay those choices until after Labor Day, as they take into consideration factors such as school re-openings and a possible second wave. Others want to plan ahead, as they realize that a reduction in overhead costs resulting from telework is a sacrifice in employee productivity, culture and collaboration.

TOP LEASE TRANSACTIONS – MIDYEAR 2020

Tenant	Address	Market	Type	Square Feet
Purdue Pharma	201 Tresser Boulevard	Stamford CBD	Renewal	104,000
Greenwich Education Group	201 High Ridge Road	Stamford Non-CBD	New Lease	70,000
Ernst & Young	300 First Stamford Place	Stamford CBD	Renewal	35,661
Bankwell Financial	258 Elm Street	South Central	New Lease	29,500
Power Home Remodeling Group	60 Commerce Drive	Eastern	New Lease	26,600

TOP SALE TRANSACTIONS – MIDYEAR 2020

Building	Market	Sale Price	Price/SF	Square Feet
54 Wilton Road	Central	\$16,700,000	\$273	61,111
75 Glen Road	Northern	\$6,200,000	\$96	64,426
400 Main Street	Stamford CBD	\$3,150,000	\$94	33,500
200 Connecticut Avenue	South Central	\$8,500,000	\$71	119,108

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)
Greenwich CBD	2,049,385	-	14.6%	7,495	26,298	\$84.46	\$91.30
Greenwich Non-CBD	2,285,358	-	18.0%	-16,886	-20,680	\$46.71	\$45.00
Greenwich Totals	4,334,743		16.4%	-9,391	5,618	\$56.87	\$87.23
Stamford CBD	8,206,671	532,258	29.3%	-52,157	-190,306	\$48.59	\$42.38
Stamford Non-CBD	7,758,873	116,805	35.2%	-43,411	-19,046	\$35.97	\$31.74
Stamford Totals	15,965,544	649,063	32.1%	-95,568	-209,352	\$42.56	\$37.39
Darien/New Canaan	700,546	-	21.4%	25,120	29,899	\$34.21	-
Norwalk	5,185,182	-	36.5%	-56,150	-60,124	\$32.35	\$32.46
Wilton	1,609,056	-	34.8%	-83,785	-85,441	\$32.77	\$28.72
South Central Totals	7,494,784		34.8%	-114,815	-115,666	\$32.55	\$31.08
Westport	1,488,672	-	16.4%	24,709	24,571	\$40.68	\$32.00
Fairfield/Southport	603,875	-	14.7%	-2,210	13,988	\$31.92	\$30.00
Central Totals	2,092,547		15.9%	22,499	38,559	\$38.19	\$31.44
Bridgeport	1,415,669	-	14.6%	0	-12,163	\$20.79	-
Shelton/Stratford	3,955,294	-	14.5%	-59,109	-68,526	\$21.50	\$20.00
Trumbull	1,371,210	-	32.8%	-4,509	-4,509	\$16.93	\$26.00
Eastern Totals	6,742,173		18.2%	-63,618	-85,198	\$19.86	\$14.41
Northern/Greater Danbury	3,092,701		28.2%	20,761	50,246	\$19.70	\$20.00
Fairfield County	39,722,492	649,063	27.4%	-240,132	-315,793	\$36.09	\$36.16

SUBMARKET STATISTICS- Class A

	Total Inventory (SF)	Under Construction	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)
Greenwich	3,798,434	-	16.1%	756	19,387	\$57.18	\$93.01
Stamford	13,605,517	649,063	33.2%	-185,132	-313,053	\$45.25	\$37.60
South Central	5,571,788	-	32.7%	-129,033	-121,943	\$35.30	\$31.08
Central	1,255,561	-	14.0%	-3,483	2,701	\$41.52	\$32.00
Eastern	4,485,572	-	15.8%	-45,728	-50,382	\$21.54	\$13.29
Northern/Greater Danbury	2,596,192	-	30.7%	20,761	47,423	\$19.77	\$20.00
Fairfield County	31,313,064	649,063	27.6%	-341,859	-415,867	\$39.10	\$36.15

SUBMARKET STATISTICS- Class B

	Total Inventory (SF)	Under Construction	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)
Greenwich	536,309	-	18.3%	-10,147	-13,769	\$55.37	\$53.92
Stamford	2,360,027	-	25.9%	89,564	103,701	\$24.60	\$30.00
South Central	1,922,996	-	40.8%	14,218	6,277	\$27.14	-
Central	836,986	-	18.9%	25,982	35,858	\$35.04	\$30.00
Eastern	2,256,601	-	23.0%	-17,890	-34,816	\$17.78	-
Northern/Greater Danbury	496,509	-	15.4%	0	2,823	\$19.00	-
Fairfield County	8,409,428	0	26.7%	101,727	100,074	\$25.81	\$36.50

ECONOMIC CONDITIONS

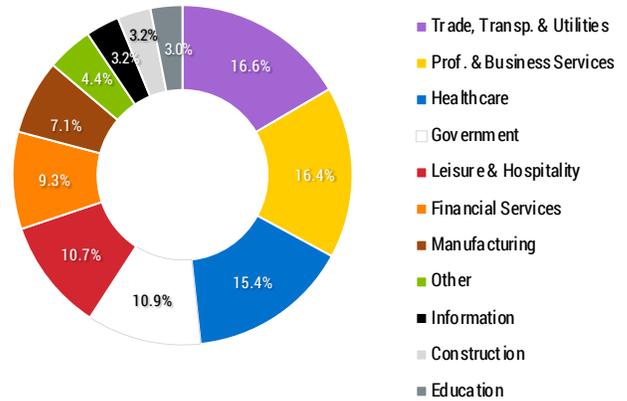
Connecticut saw the beginnings of recovery of the historic job losses in April caused by the COVID-19 pandemic. The state's preliminary nonfarm job report by the U.S. Bureau of Labor Statistics showed job gains of 25,800, or 1.8%, in May 2020, for a total of 1,434,000, seasonally adjusted. Over the year, nonfarm employment fell by 251,400, or 14.9%. April 2020 recorded a historic job loss of 269,200.

Leisure and hospitality, retail trade, education and health services remain the hardest-hit industries, yet the process of recovery is expected to quicken as the state implements its phased response to slowing the spread of the virus. Improving sectors as of May included leisure and hospitality, which added 9,400 jobs, up 13.4%; followed by trade, transportation and utilities, with 5,100 jobs gained, or 2.1%; and educational and health services, with 4,600 jobs, or 1.6%.

The official May 2020 unemployment rate for Connecticut was 9.4%, compared with 13.3% for the U.S. and with 18.3% for New York City.

EMPLOYMENT BY INDUSTRY

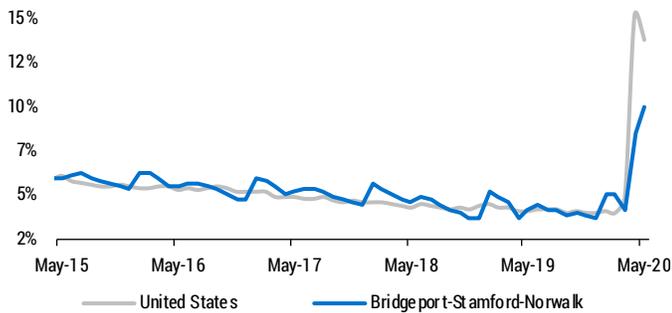
Bridgeport-Stamford-Norwalk Area



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

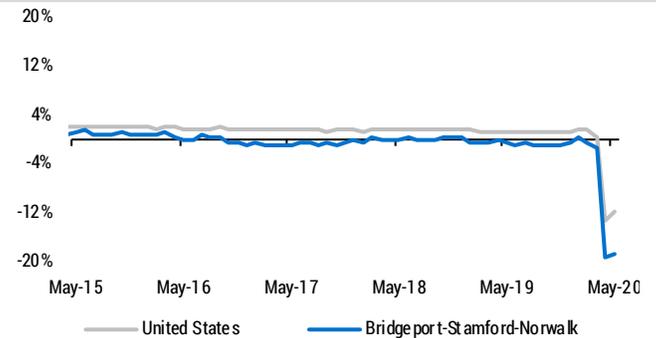
Bridgeport-Stamford-Norwalk Area (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

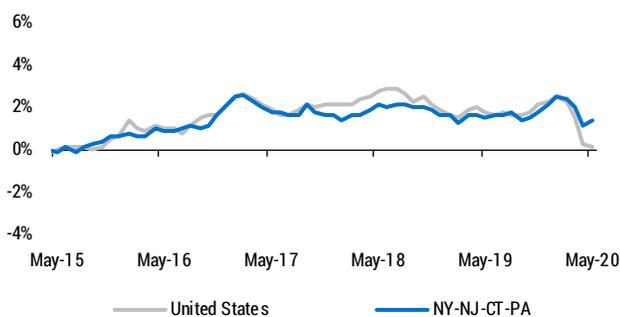
Total Nonfarm, 12-Month % Change (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

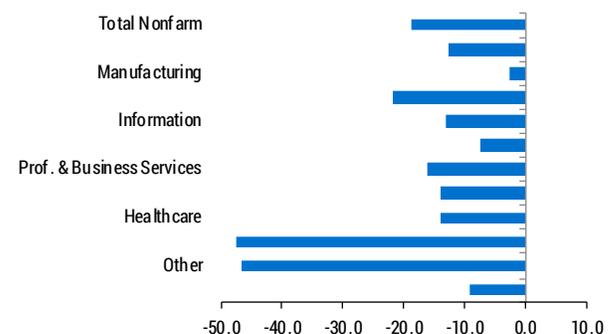
All Items, 12-Month % Change (Not Seasonally Adjusted)



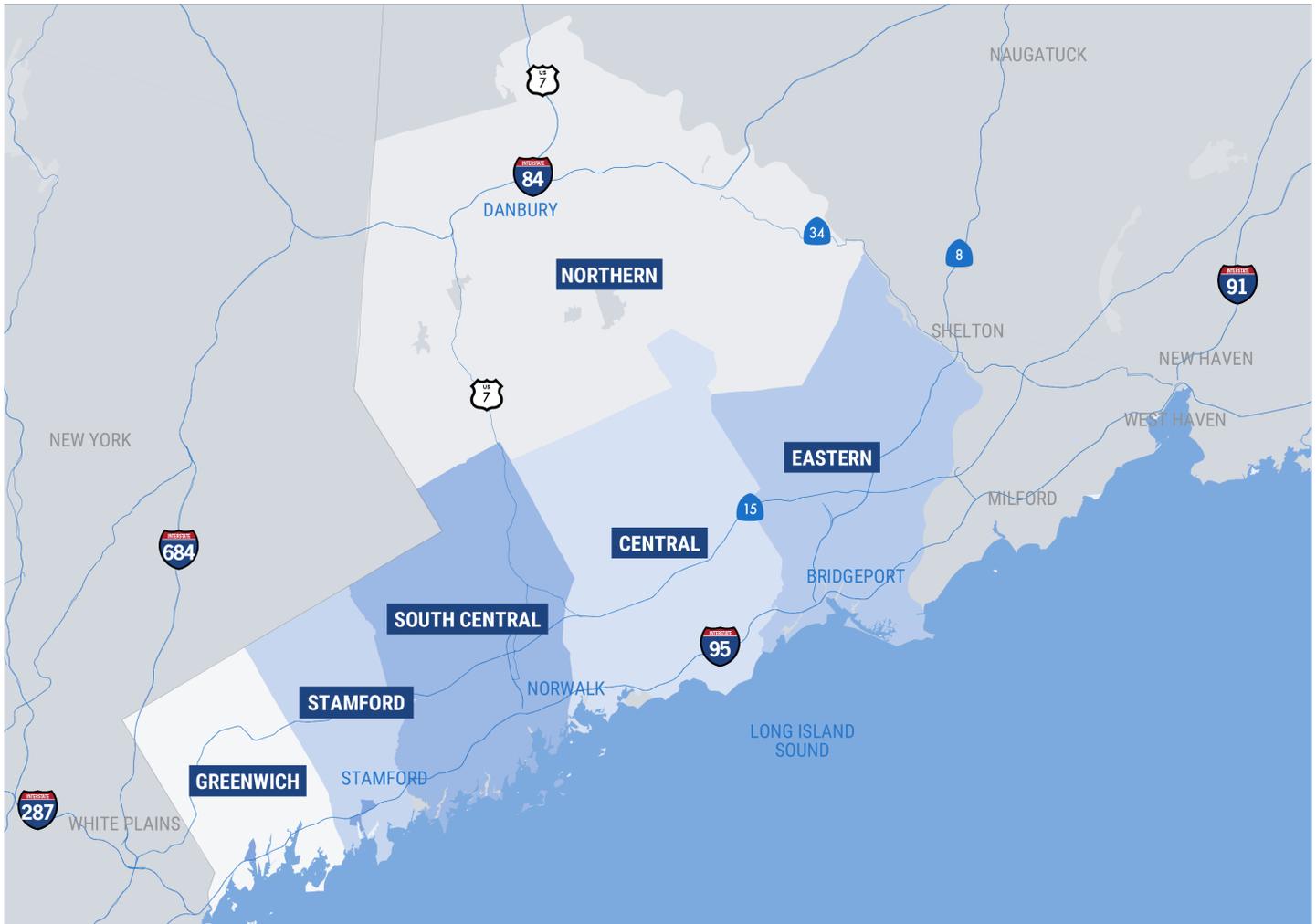
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Bridgeport-Stamford-Norwalk, 12-Month % Change (Not Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics



KAROLINA ALEXANDRE
Research Manager
203.531.3609
kalexandre@ngkf.com

Fairfield County, CT
680 Washington Boulevard
Stamford, CT 06901
203.531.3600

Westchester County, NY
800 Westchester Avenue
Rye Brook, NY 10573
914.881.1024

Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark Knight Frank (NKF) has not verified any such information, and the same constitutes the statements and representations only of the source thereof, and not of NKF. Any recipient of this publication should independently verify such information and all other information that may be material to any decision that recipient may make in response to this publication, and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial, and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of NGKF, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains.