MARKETVIEW

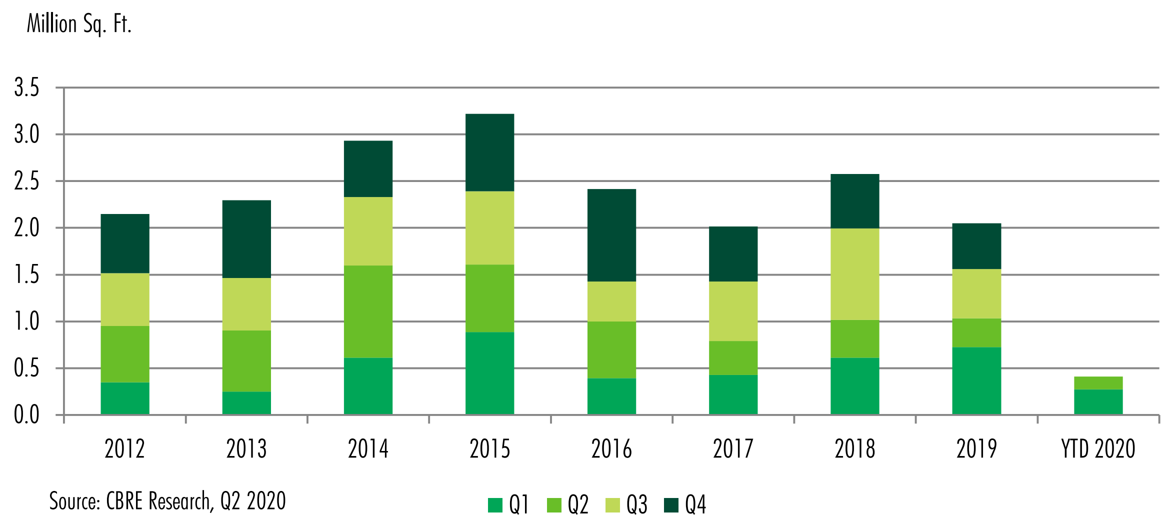
Fairfield County Office, Q2 2020

COVID-19 Concerns Stall Fairfield Office Leasing

Availability Rate	Avg. Asking Lease Rate	Net Absorption	Leasing Activity
25.2%	34.35 $/SF	-617,768 SF	136,591 SF

*Arrows indicate change from previous quarter.

Figure 1: Historical Leasing Activity



Source: CBRE Research, Q2 2020

- Fairfield County's availability rate increased 150 basis points (bps) quarter-over-quarter to 25.2%.
- Leasing activity was 136,591 sq. ft., down 50% from Q1 2020 and 56% less than Q2 2019.
- Net absorption was -617,768 sq. ft down from the previous quarter's level of negative 55,800 sq. ft..
- The average asking rent was virtually unchanged quarter-over quarter at $34.35 per sq. ft, but down 2% from Q2 2019.

MARKET OVERVIEW

The full scale of the global COVID-19 crisis, which first spooked the Tri-State region at the end of Q1 2020, was fully revealed in Q2 2020. A deep global recession quickly materialized during the quarter leading to sharp decreases in employment, consumer spending, and business confidence. The effect on the Fairfield County office market was substantial. Large companies delayed making decisions on long-term business plans leading to a substantial slowdown in leasing activity. As a result, renewal activity of 161,000 accounted for over half of the quarter's meek 298,000 sq. ft. of leasing velocity. Companies also looked to shed extra space as economic concerns led to cost cutting. The lack of demand in Fairfield County as well as more sublease additions led to a 150 basis points (bps) quarterly increase in the availability rate to 25.2% in Q2 2020, with 42% of that new availability from sublease space. The average asking rent for office space in Fairfield County during Q2 2020 was stable at $34.35, largely unchanged quarter-quarter. Despite the setbacks of the quarter there are some positive prospects for the Fairfield County office market. There has been a flurry of activity from NYC occupiers looking to bring satellite offices closer to their Fairfield-based workers, who are eager to get back to the office, but not yet ready to use mass transit. Several small tenants have taken space already, and it looks like more will do so in the third and fourth quarters.

ECONOMIC CONDITIONS

COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially in the Northeast, facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 15% nationally and likely causing the economy to contract by more than 30% per annum in the second quarter. Several high-frequency indicators, such as hotel occupancies, restaurant traffic and hours worked, suggest the US economy bottomed in April and has been trending slightly upward since. This has renewed demand for labor as many hard-hit sectors, such as hospitality and healthcare, began to bring back furloughed workers in May.

While job recovery in the Tri-State has lagged regions that began reopening earlier, employers in the area began returning furloughed workers to their places of business in May. Total nonfarm employment in Southwest Connecticut fell from a pre-COVID-19 high of 404,800 positions in February to a low of 329,700 positions in April (-18.1%). By the end of May, employment had increased to 330,100 positions or 81.5% of February employment levels. Office-using employment in Southwest Connecticut fell by 28,000 positions (-10.3%) with nearly 95% of those losses coming from professional and business services. Southwest Connecticut has since recovered 1,600 office-using positions or 5.7% of those lost. This rebound in office-using positions exceeded the national average which saw office-using firms recover 4.6% of their Pre-COVID-19 employment. Weekly unemployment claims in Connecticut averaged 12,500 per week in June, down from 24,600 in May, and 50,800 in April.

LEASING ACTIVITY

Leasing activity in Fairfield County suffered a major slowdown in Q2 2020 as the COVID-19 crisis unfolded. Early on, business leaders turned attention away from real estate decisions in order to triage COVID-induced business disruption, assess employee health needs and pivot business operations temporarily to work-from-home. Additionally, the swift decline in the economic picture created uncertainty about both near- and longer-term business needs, making it difficult to commit to real estate requirements and transactions in progress pre-COVID. Finally, the unique public health dynamics of this crisis, which have required people to maintain social distance and avoid congregating together, has also introduced new unknowns into the real estate equation.

Without clarity about how and when workers will return to the office or how they will inhabit their workplaces, occupiers avoided making real estate decisions for much of the first months of the pandemic. The market paralysis was most evident among the county's larger, corporate occupiers, while the nimbler small- and medium-sized companies were better able to make quick decisions on their future space needs, leading to a handful of new lease transactions during the quarter. Leasing activity in Q2 2020 was 136,591 sq. ft., a 50% decrease from Q1 2020 and a decline of 56% from Q2 2019. The quarter's total was

Figure 2: Q2 2020 Top Lease Transactions

Size (SF)	Tenant	Address	Submarket	Transaction Type
29,500 sq. ft.	Bankwell Financial Group	258 Elm Street, New Canaan	Central Fairfield	Lease
24,547 sq. ft.	World Wrestling Entertainment, Inc.	1266 East Main Street, Stamford	Stamford N/CBD	Renewal
24,029 sq. ft.	Indeed	107 Elm Street, Stamford	Stamford CBD	Renewal
23,919 sq. ft.	McKinsey & Company, Inc.	2 Harbor Point Road, Stamford	Stamford CBD	Renewal
18,924 sq. ft.	Ernst & Young LLP	300 First Stamford Place, Stamford	Stamford CBD	Renewal

Source: CBRE Research, Q2 2020

also 77% lower than the five-year quarterly average and the lowest total on record. Fewer transactions coupled with a lack of large leases were the primary factors in the low total activity, with only one lease recorded over 20,000 sq. ft. county-wide and just 21 leases overall, compared to 43 in Q1 2020.
While there was almost no large deal activity, there was an uptick in deal size among transactions in the 5,000 – 10,000 sq.-ft. range, where the bulk of Fairfield County leasing occurs. With more deals over 5,000 sq. ft. Median deal size increased quarter-over-quarter by 49% from 3,016 to 4,500 sq. ft.

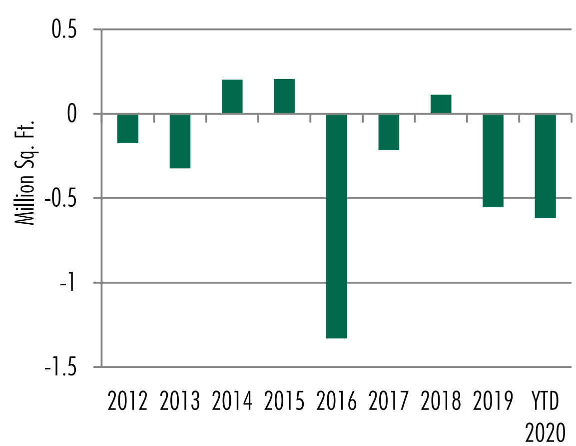
Central Fairfield recorded the largest leasing activity total of all the submarkets for the quarter, accounting for 69,242 sq. ft., slightly more than half of the county's total. The submarket recorded the two largest new leases during the quarter. Bankwell Financial Group leased 29,500 sq. ft. at 258 Elm St. in New Canaan and Cadenza Innovation leased 16,900 sq. ft. at 372 Danbury Rd. in Wilton.

The Greenwich submarkets combined for 34,746 sq. ft. in leasing activity during Q2 2020, almost double leasing total recorded in Q1 2020. Greenwich has been a favored location for NYC private equity companies and hedge funds with the ability to make quick decisions looking for space outside of NYC in response to the COVID-19 crisis, as there is a concentration of influential business decision makers living there.

Edgewood Management's lease of 9,400 sq. ft. at 600 Steamboat Rd. in Greenwich is a prime example of this developing niche for the Greenwich submarkets.

The Stamford CBD submarket accounted for 32,603 sq. ft. in leasing activity during Q2 2020, the lowest quarterly total on record. There were, however, were several larger renewals recorded in the Stamford CBD during the quarter totalling 105,745 sq. ft. Three large companies, Ernst and Young LLP, Indeed, and McKinsey & Co., were responsible for most of the renewal activity.

Figure 3: Historical Cumulative Net Absorption



Source: CBRE Research, Q2 2020

NET ABSORPTION AND AVAILABILITY

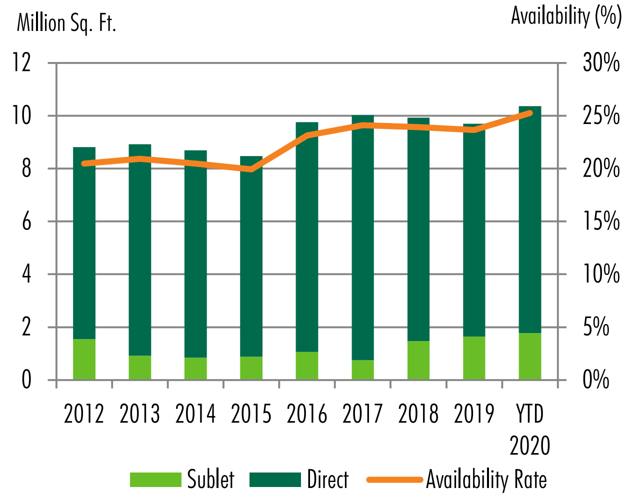
Fairfield County recorded negative net absorption of 617,000 sq. ft. in Q2 2020. This was a markedly worse outcome from Q1 2020's negative 55,800 sq. ft. and the Q2 2019's negative 196,072 sq. ft. The quarter's poor performance pulled the Fairfield County availability rate up 150 basis points (bps) quarter-over-quarter to 25.2%, the highest level since Q2 2017. This was the steepest quarterly increase in the availability since Q1 2009, after the onset of the financial crisis.

Sublease space added in Fairfield County during Q2 2020 totaled 228,000 sq. ft., accounting for 27% of the quarter's new availability by square feet with four blocks added over 30,000 sq. ft. This is a significant increase over the volume of sublease space added in Q1 2020 (6,200 sq. ft.) and one year ago in Q2 2019 (92,000 sq. ft.). Large blocks of space were added at 1 American Lane in Greenwich, 40 Danbury Road in Wilton, and 200 Nyala Farms in Westport. Overall, at the end of Q2 2020, sublease space in Fairfield County represented 17.1% of the total space on the market compared to 16% at the end of Q1 2020 16.9% and at the end of Q2 2019.

Central Fairfield posted the largest negative net absorption of any of the Fairfield County submarkets at negative 327,627 sq. ft. Sublet space accounted for 161,000 sq. ft. of the new availability, the largest total for any submarket during the quarter. After a compression in the Central Fairfield availability rate in Q1 2020, the strong negative absorption recorded during Q2 2020 yanked the submarket's availability rate up 330 bps to 28.8%. This was the largest change in availability rate for all the county's submarkets year-over-year.

The Greenwich CBD, posting net absorption of 7,286 sq. ft. in Q2 2020, was the only

Figure 4: Historical Availability



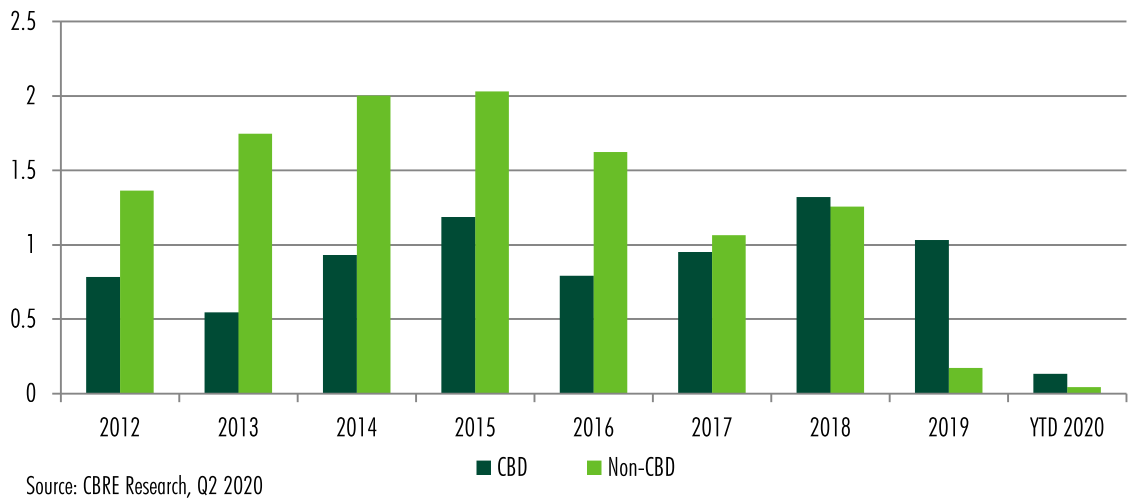
Source: CBRE Research, Q2 2020

Fairfield County submarket to post positive net absorption during the quarter. This was the result of four leases being signed and only 11,000 sq. ft. of direct space becoming available during the quarter, along with no sublet additions. The Greenwich CBD submarket's availability rate, already the lowest in the market, fell an additional 40 bps quarter-over-quarter to 15.1%.

AVERAGE ASKING RENT

Average asking rent in Fairfield County overall was unchanged quarter-over-quarter at $34.35 per sq. ft., and only down 2.8% year-over-year despite the recent flow of new availability on the market. The downward year-over-year move in asking rent was the result of more new availability in the relatively cheaper submarkets of Central Fairfield and Fairfield East. Only two of the seven submarkets in Fairfield County saw material changes in average asking rent either quarter-quarter or year-over-year. Eastern Fairfield was the only submarket with a significant change in average asking rent quarter-over-quarter with a 2% increase to $17.84, as more expensive space became available at 375 Bridgeport Ave. in Shelton. The submarket was also posted the only year-over-year increase at 4.6%. Average asking rents in the Stamford CBD fell 3.6% year-over year to $46.35. per sq. ft.

Figure 5: Stamford CBD vs. Non-CBD Leasing Activity



Source: CBRE Research, Q2 2020

Figure 6: Q2 2020 Market Statistics

Submarket	Market Rentable Area (SF)	Total Available (SF)	Availability Rate (%)	Vacancy Rate (%)	Net Absorption (SF)	Leasing Activity (SF)	Avg. Asking Rent ($/SF/Yr)
Greenwich CBD	2,134,730	322,941	15.1%	13.8%	7,286	29,465	$90.47
Greenwich N/CBD	2,194,075	430,368	19.6%	18.7%	-37,365	5,281	$44.90
Stamford CBD	10,287,471	2,659,776	25.9%	23.3%	-81,469	32,603	$46.35
Stamford N/CBD	6,381,443	2,008,285	31.5%	29.2%	-98,201	0	$29.85
Central	9,728,274	2,803,890	28.8%	24.4%	-327,627	69,242	$32.89
Eastern	6,263,488	1,286,433	20.5%	17.9%	-74,987	0	$17.84
Northern	4,043,800	846,052	20.9%	20.9%	-5,405	0	$18.92
Total	**41,033,281**	**10,357,745**	**25.2%**	**22.7%**	**-617,768**	**136,591**	**$34.35**

Source: CBRE Research, Q2 2020

DEFINITIONS

Availability — Space that is being actively marketed and is available for tenant build-out within 12 months. Includes space available for sublease as well as space in buildings under construction.

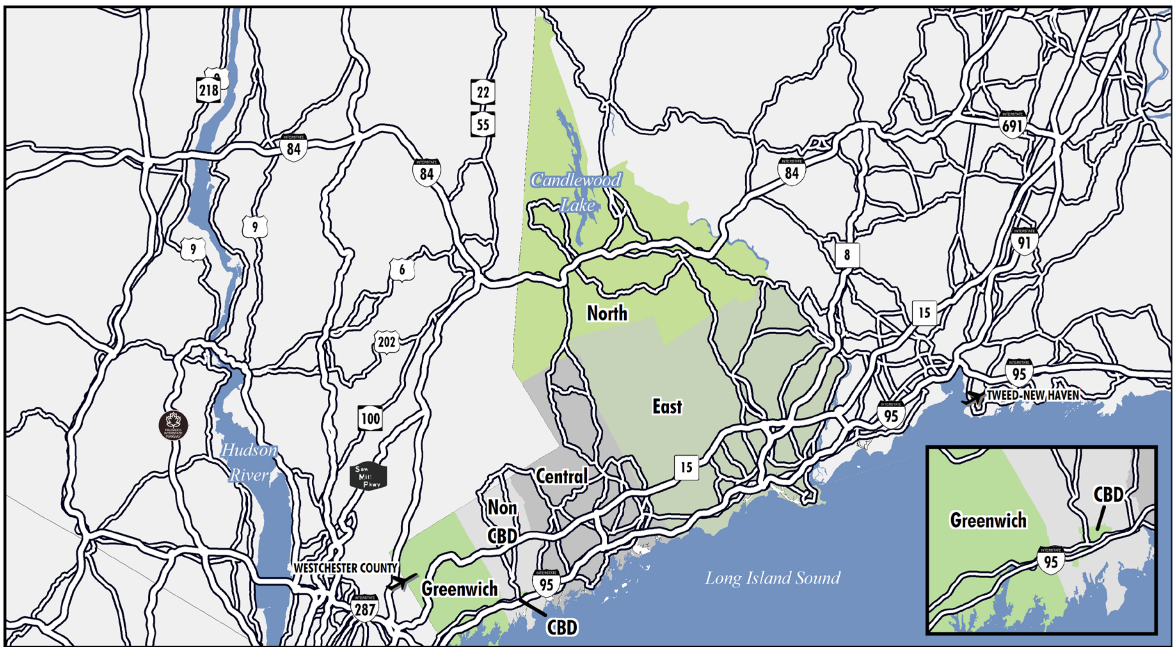
Asking Rent — Weighted average asking rent.

Leasing Activity — Total amount of sq. ft. leased within a specified period of time, including pre-leasing and purchases of space for occupancy, excluding renewals.

Leasing Velocity — Total amount of sq. ft. leased within a specified period of time, including pre-leasing and purchases of space for occupancy, including renewals.

Net Absorption — The change in the amount of committed sq. ft. within a specified period of time, as measured by the change in available sq. ft.

Vacancy — Unoccupied space available for lease.



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