

MIDYEAR 2024

Fairfield County Office Market Overview

NEWMARK



Market Observations

Economy

- The state of Connecticut continued its strong start to 2024 with the fifth consecutive monthly gain in payroll employment. Job growth averaged 3,040 per month, adding 15,200 jobs YTD. The private sector outpaced the all-time high record set back in 2018 by almost 10,000 jobs.
- The state's private sector employment added 4,200 (0.3%) positions in May 2024 and has fully recovered from the April 2020 COVID employment low point.
- Six of the ten major industry sectors added positions in June 2024, while three declined and one remained unchanged. Leading the job gains were leisure and hospitality +1,800 (1.2%), education and health services +1,600 (0.4%), professional and business services +1,000 (0.5%), information +600 (2.0%), government +500 (0.2%) and trade/transportation +300 (0.1%). The three sectors that showed a decrease were manufacturing, other services and financial activities
- The Fairfield County unemployment rate rose by 60 basis points year-over-year to 4.2% in May. This is higher than the 3.7% level recorded in the U.S. and 4.1% in Connecticut.

Major Developments

- Indeed, a recruiting firm which has been one of the county's largest tenants in the market for the past five years, finally signed a deal to relocate its headquarters to 200 Elm Street and 695 East Main Street. They will vacate roughly 200,000 SF within the RFR portfolio and move into a new 124,180 SF space.
- Investment sales activity saw an uptick in the first half of 2024, with approximately 300,000 SF traded for a combined \$100 million and an average of \$335/SF. By comparison, only 100,000 SF of office product exchanged hands in the first half of 2023 for a combined \$9.7 million and an average of \$108/SF.
- Bucking the trend of adaptive re-use of long-vacant office buildings throughout the county, the Greenwich market is experiencing organic growth that is impacting several Downtown Class B and C assets. A major Greenwich occupier purchased an acre of land near their headquarters with five properties, including 537 and 545 Steamboat Road. They plan to build a new 40,000-SF office building for their own use.

Leasing Market Fundamentals

- After trending downward for six consecutive quarters, the overall availability rate moved back to 27.0%, up from 26.3% at the start of 2024. The direct vacancy rate hit a new record high of 18.9%, attributed to expiring leases and downsizing. Although several buildings slated for redevelopment have been removed from the office inventory, large occupiers such as Indeed, Henkel and Philips have reduced footprints this quarter, adding new supply to the market.
- Roughly a million SF of leases were transacted in the second quarter alone, bringing the YTD 2024 leasing volumes to nearly 1.6 million square feet, up 26.3% from midyear 2023. But while large deals buoyed total leasing volumes, they were a double edge sword, as some reduced their original footprints by half. Year-to-date net absorption therefore ended with negative 298,731 SF.
- With more leasing activity focused on higher-priced product and leaving behind availabilities with a lower price tag, the Class A direct average asking rate moved down slightly to \$40.70/SF, while Class B rents remained stable at \$29.46/SF.

Outlook

- Recently observed trends, both nationally and locally, are likely to continue throughout the second half of the year. These include continued flight-to-quality into smaller footprints but also large tenants' tendency toward renewals with longer lease terms versus relocations.
- In terms of pricing, asking rents have seen slight decreases as of this quarter, but concessions may have or may soon be reaching a peak given current economic conditions
- On a more macro note, economic conditions may point to a more supportive environment as Fed officials laid the groundwork for a rate cut in the near-term, citing increased confidence that inflation is moving down toward their 2% goal. That said, the commercial real estate market still faces some headwinds, particularly for assets with loan maturities on the horizon. Capital markets activity will likely increase as owners look to refinance or dispose of assets that no longer meet their investment criteria. This may also lead to more conversions of office properties that are deemed un-leasable in today's market.

1. Economy
2. Leasing Market Fundamentals

MIDYEAR 2024

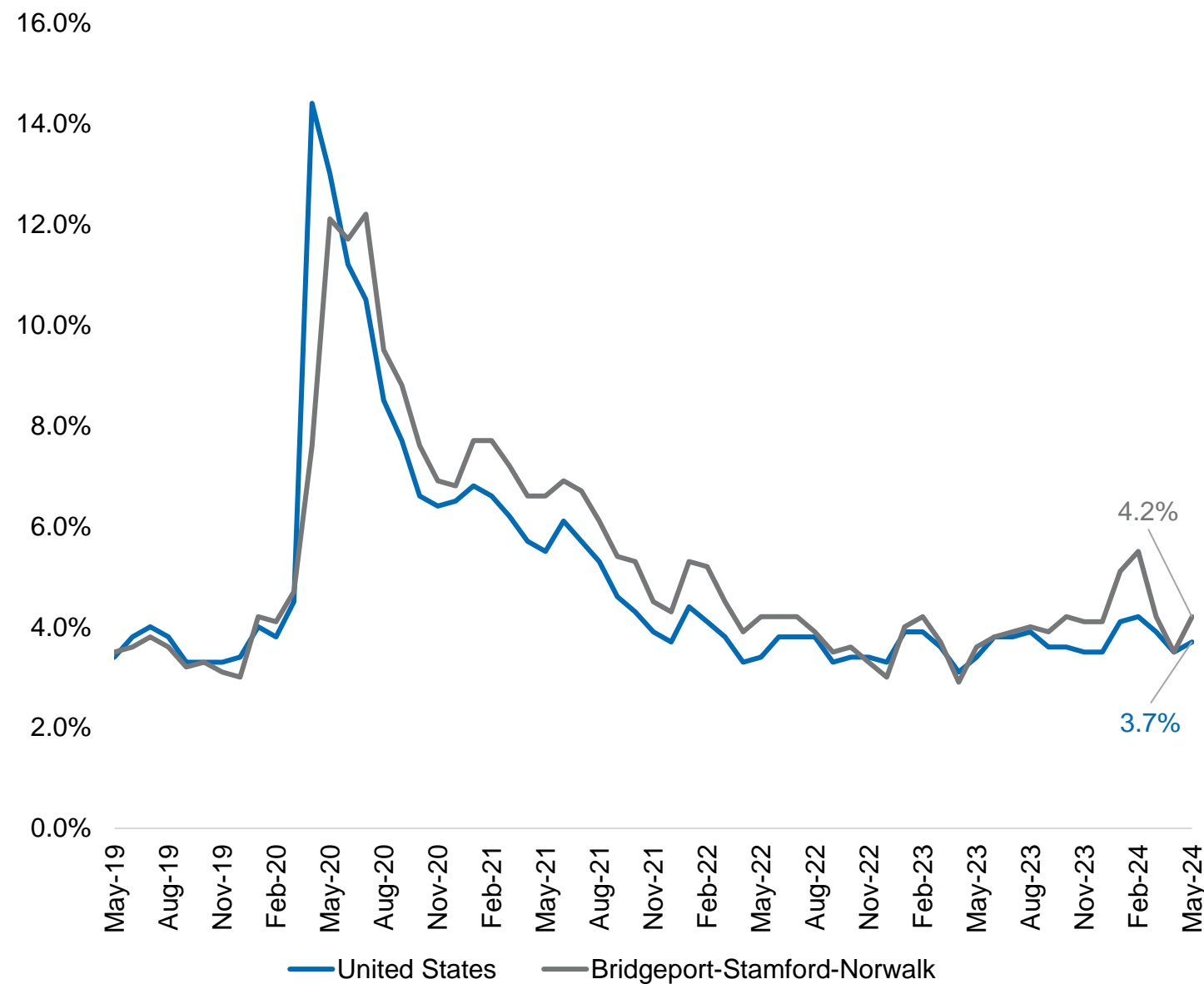
Economy



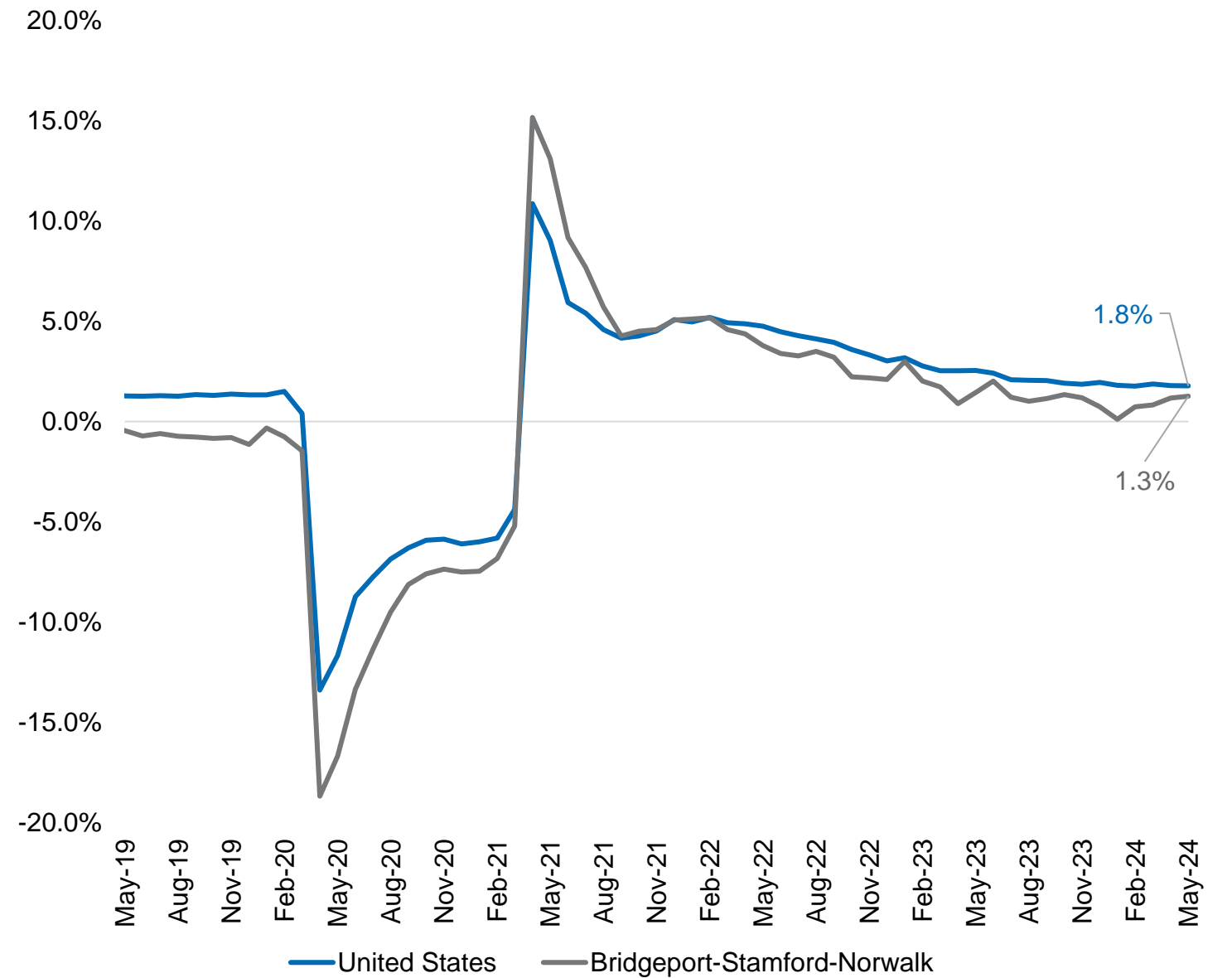
Metro Employment Trends in Fairfield County

May unemployment rates ended at 3.7% in the U.S, 4.2% in Fairfield County, and 4.1% in the state of Connecticut. The unemployment rate in the county saw a year-over-year increase from 3.6% in May 2023. The state of Connecticut added a total of 4,700 jobs in May, up 0.3% month over month, and 1.1% year over year. It is the fifth consecutive monthly gain in payroll employment. The private sector has recovered 105.5% of the jobs lost during the COVID-19 pandemic in March 2020.

Unemployment Rate, Non-Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

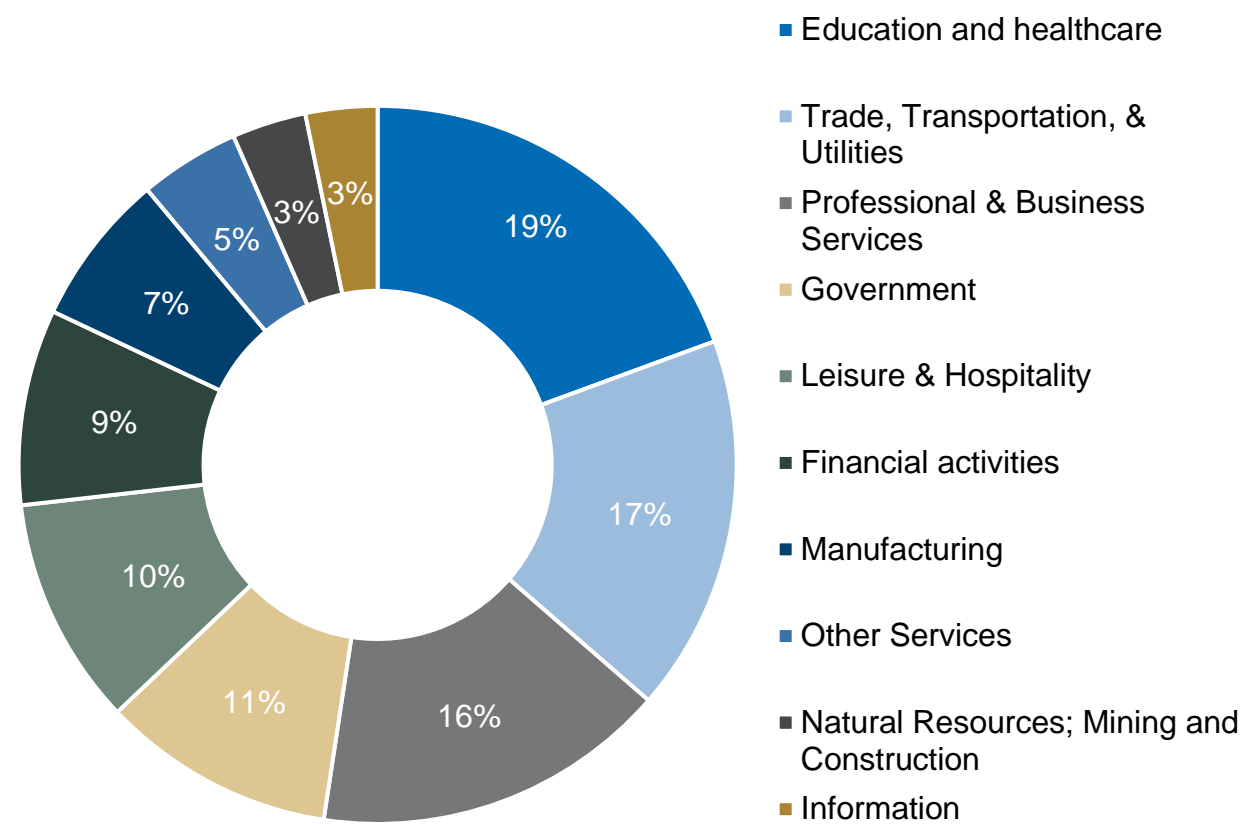


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area

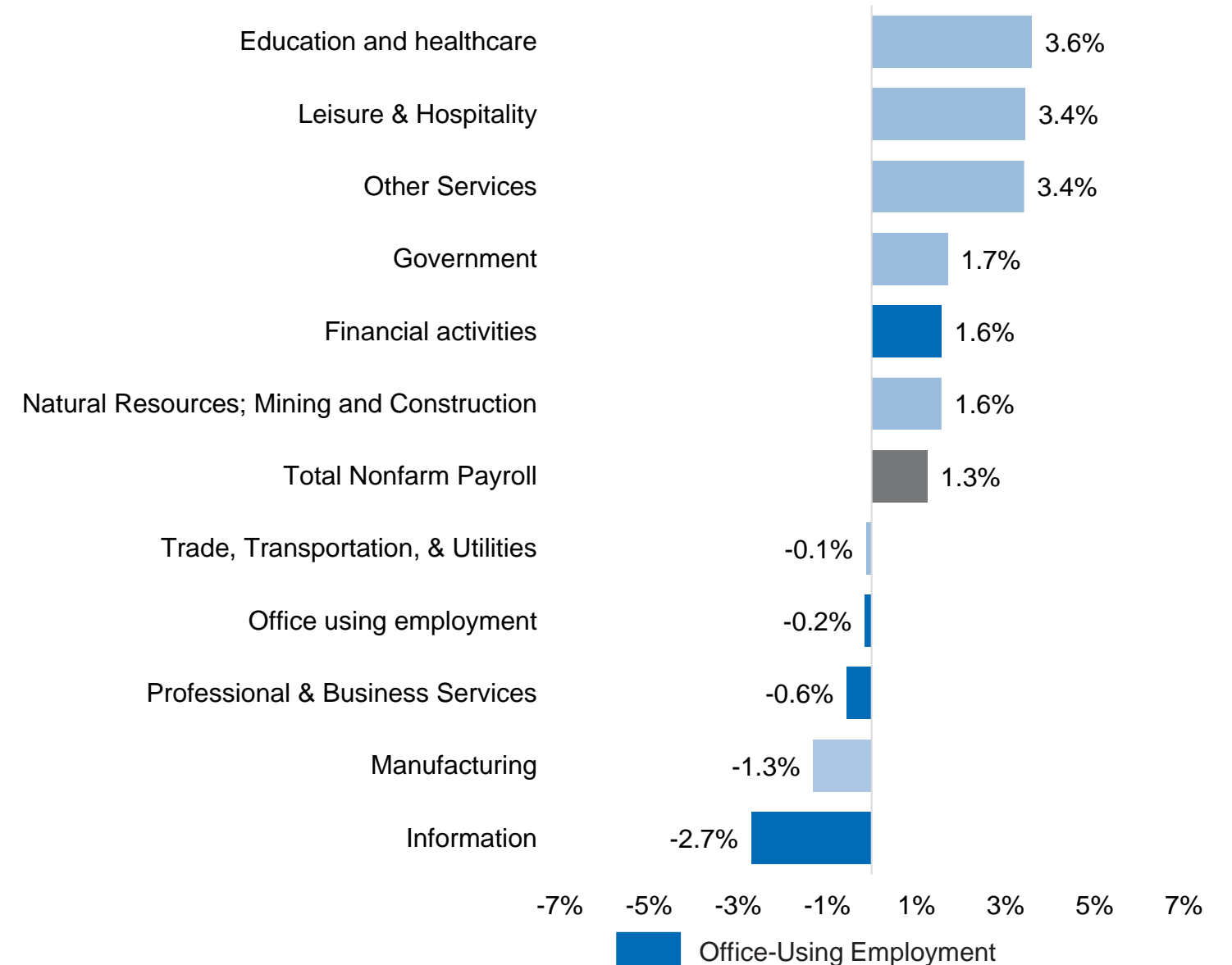
Employment by Industry and Employment Growth

Statewide, six industry sectors added jobs in May 2024 while three recorded losses. Growth was led by leisure and hospitality (+1,800, or 1.2%), education and health services (+1,600, or 0.4%), professional and business services (+1,000, or 0.5%), information (+600, or 2.0%), government (+500, or 0.2%), and trade/transportation/utilities (+300, or 0.1%). Job cuts were recorded in manufacturing (-500, or -0.3%), other services (-400, or -0.6%), and financial activities (-200, or -0.2%). Within Fairfield County, job gains were recorded in the education and healthcare, leisure and hospitality, other services, government and finance sectors.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

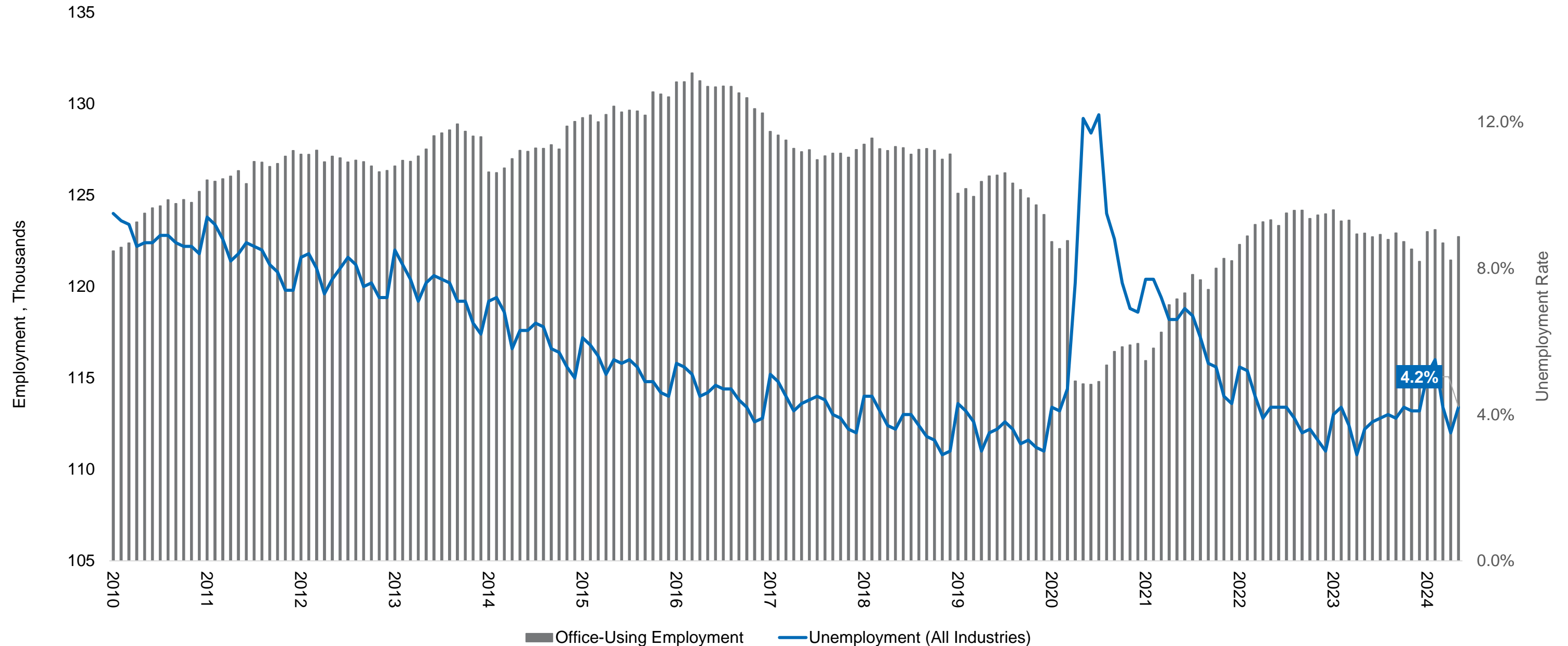


Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area

Overall Office-Using Employment

Office using employment rose by 1.1% month over month, ending at 122,732 positions in May compared to 121,451 positions in April. Overall office using employment in the county is down by 0.2% year over year, compared to 122,921 positions in May 2023. Out of the three office using sectors, financial services employment rose by 1.6%, while professional and business services and the information sector decreased by 0.6% and 2.7%, respectively.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Bridgeport-Stamford-Norwalk Area

Note: May 2024 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

MIDYEAR 2024

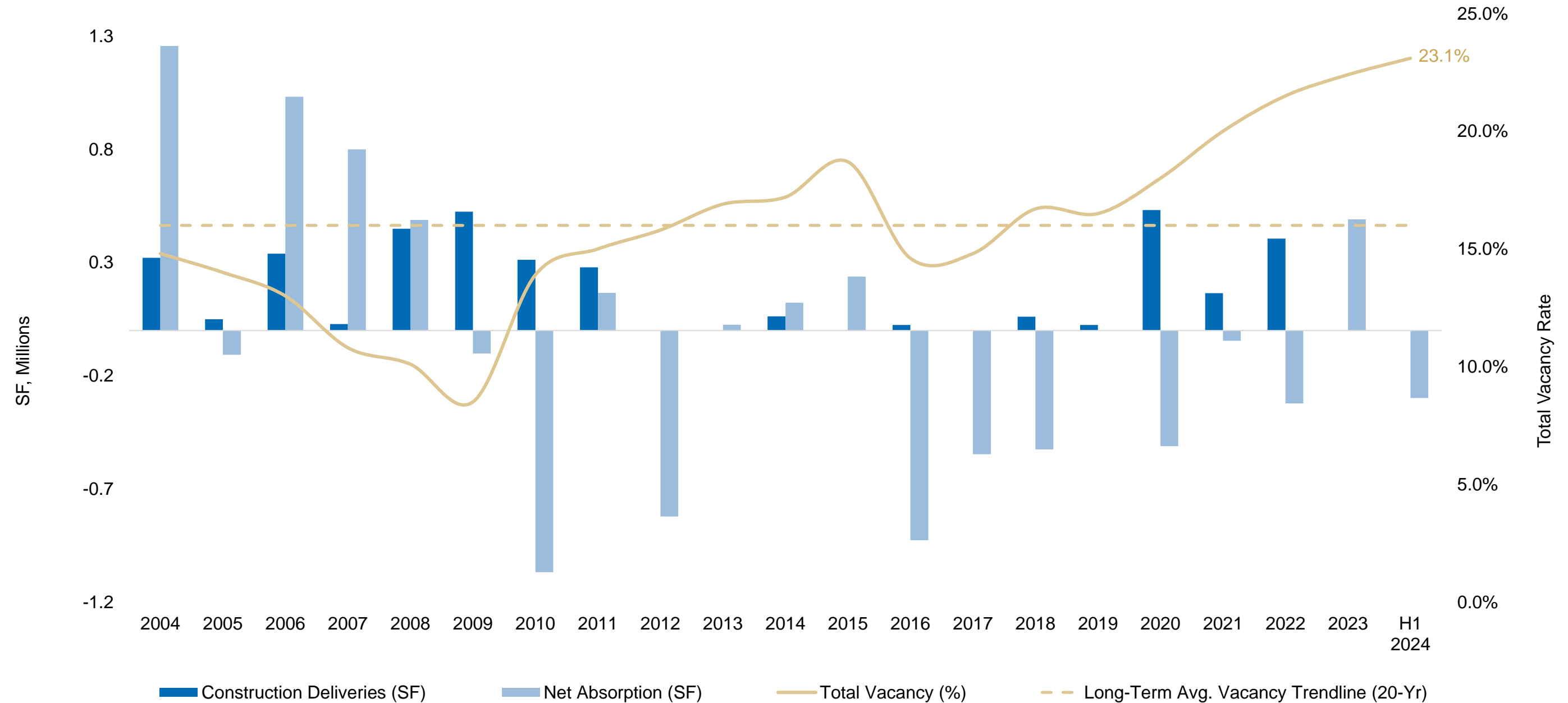
Leasing Market Fundamentals



Vacancy Remains Elevated as Office Market Continues to Navigate Demand Shifts

Net absorption ended the first half of 2024 with negative 298,731 SF, while vacancy rates remain elevated at 23.1%, a new historical high for the county. This level stands 5.1 percentage points higher than the 10-year historical mark of 18.0%. The overall availability rate, which include both vacant properties and those that are still occupied but available for lease, ended at 27.0%, slightly lower than the 27.1% level recorded a year ago.

Historical Construction Deliveries, Net Absorption, and Vacancy

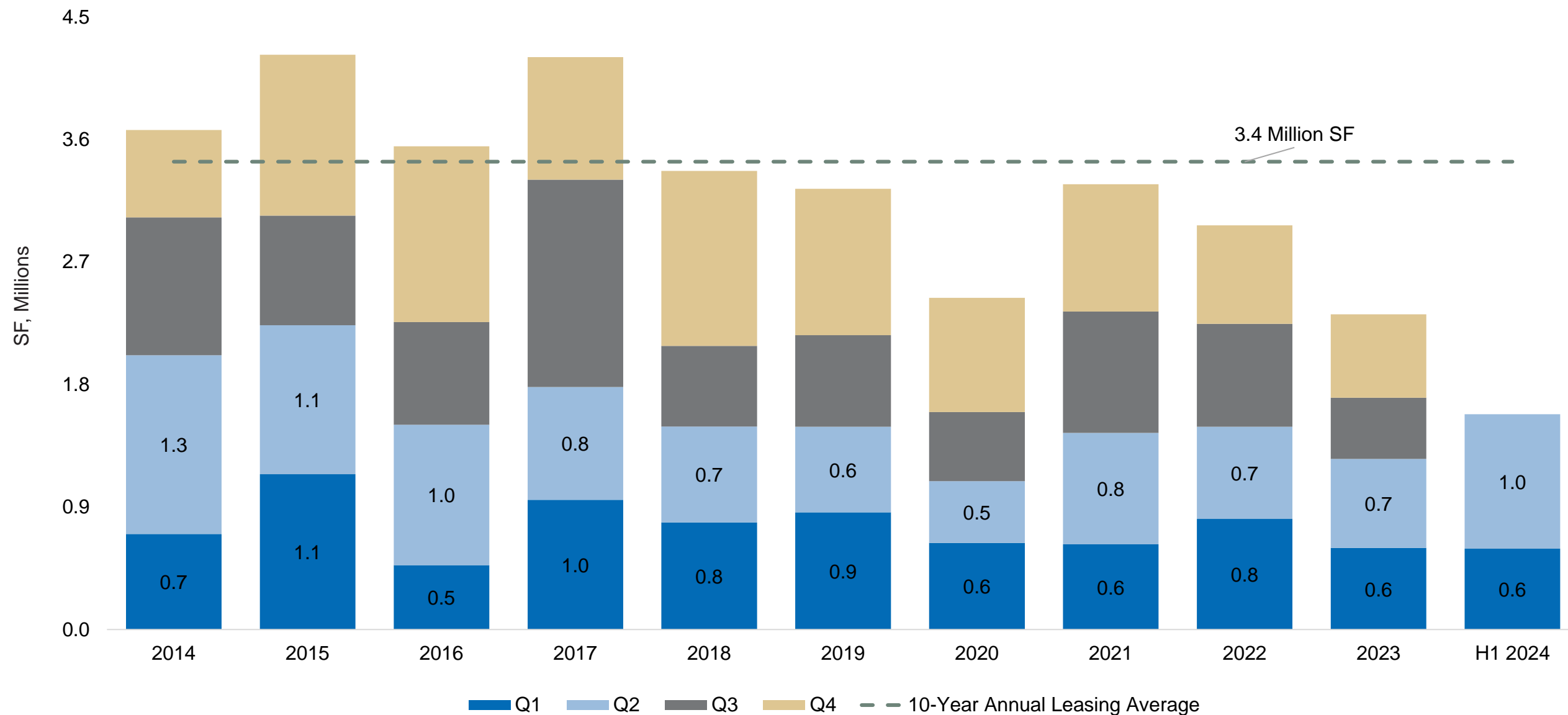


Source: Newmark Research

Renewal Activity by Large Firms Drive Second Quarter Leasing Activity

Roughly a million SF of leases were transacted during the second quarter of 2024, elevating midyear levels to a total of 1.6 million SF, on par with the 10-year historical average. Although in recent years smaller deals have kept leasing volumes well below average, renewal activity by large tenants including Henkel and Philip Morris International this quarter boosted year-to-date levels.

Total Leasing Activity (msf)

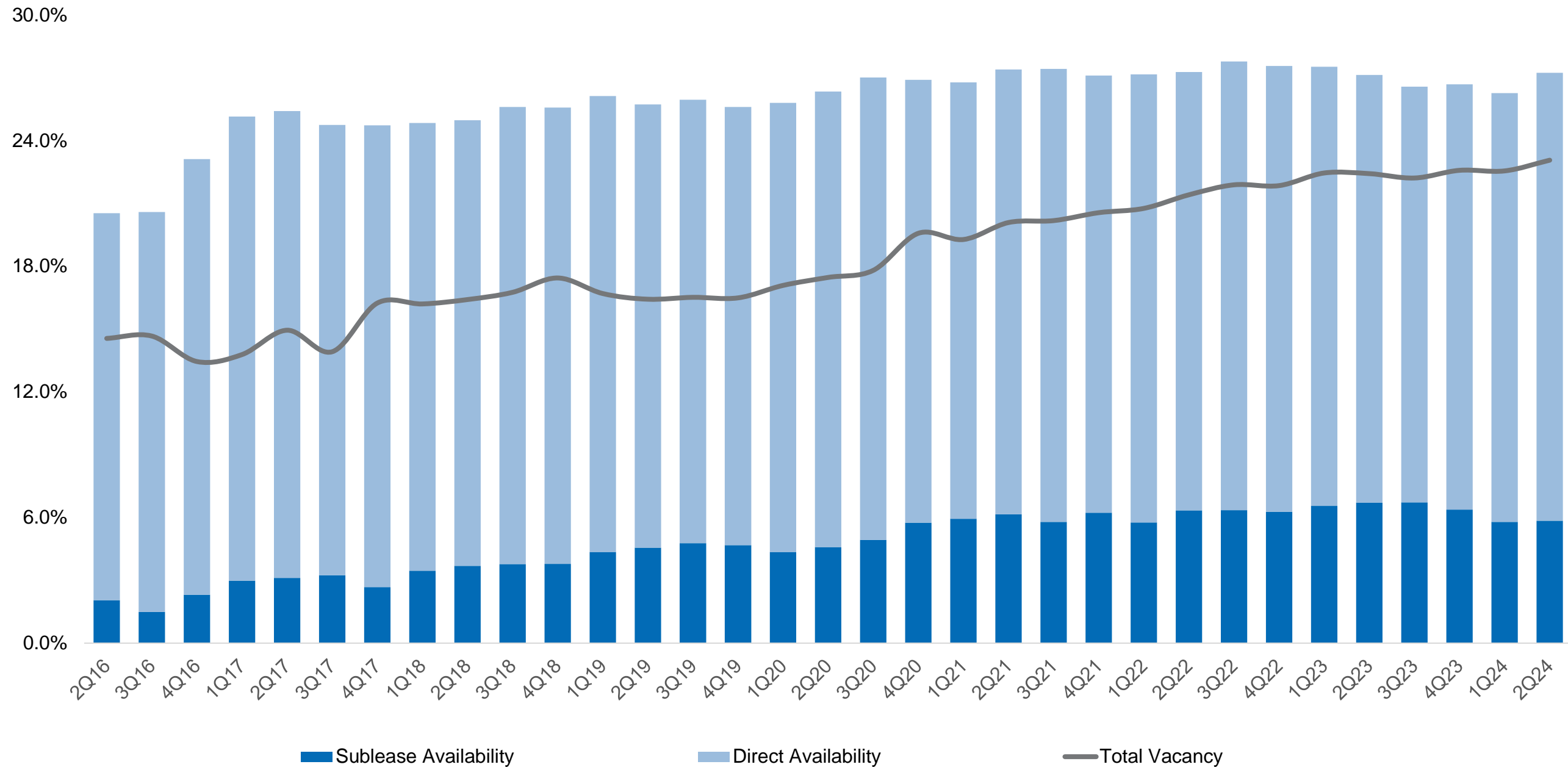


Source: Newmark Research

Availability Rates Increase in Q2; Sublease Rates Remain Unchanged

Despite an increase in leasing activity this quarter, both vacancy and availability rates moved upwards as excess space from tenants rightsizing were added to market. The direct availability rate increased by a percentage point since last year, to 21.4%. At 5.8%, the sublease availability rate remained unchanged from the previous quarter, but lower than the 6.7% level recorded in the prior year.

Available Space as Percent of Overall Market

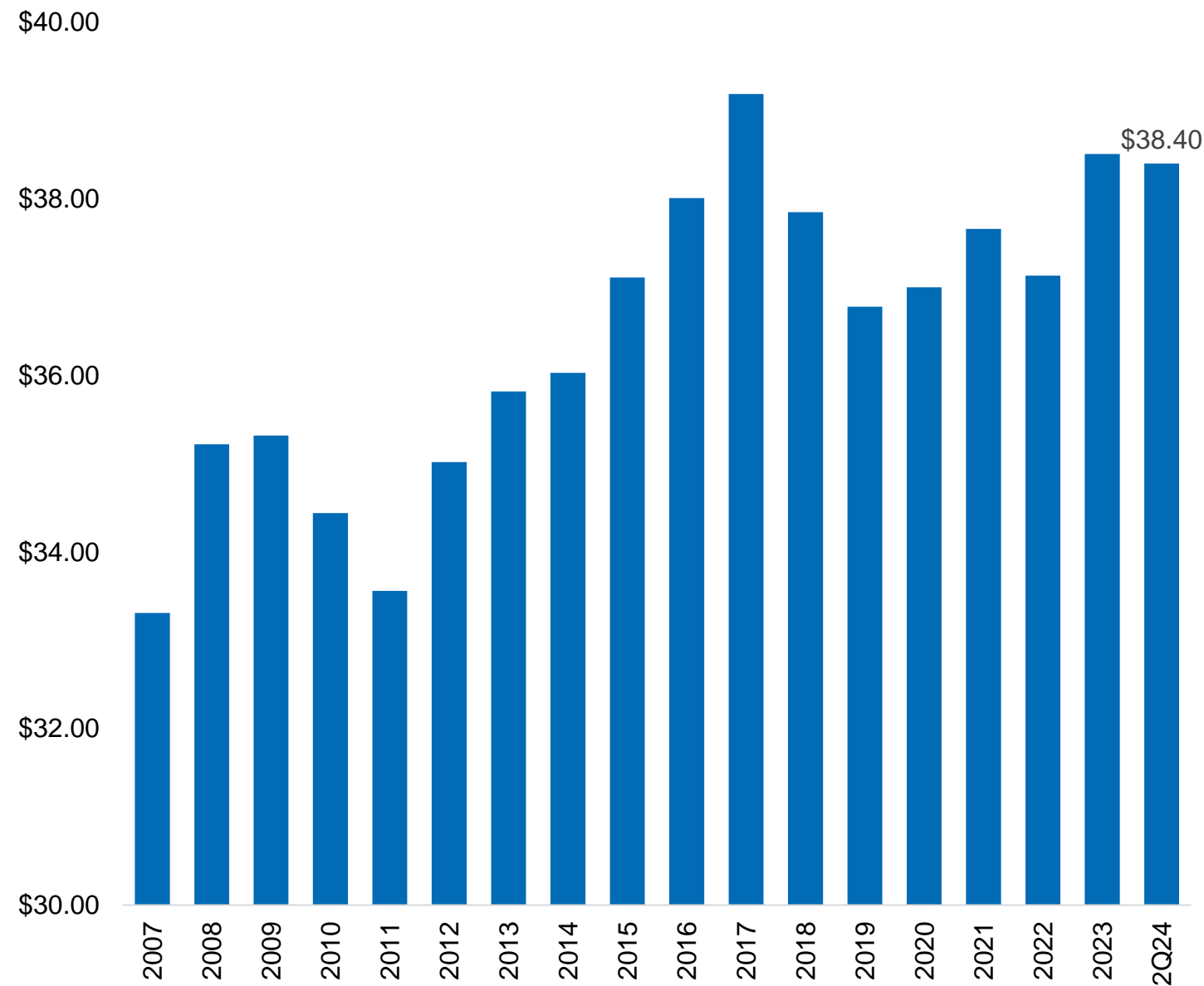


Source: Newmark Research

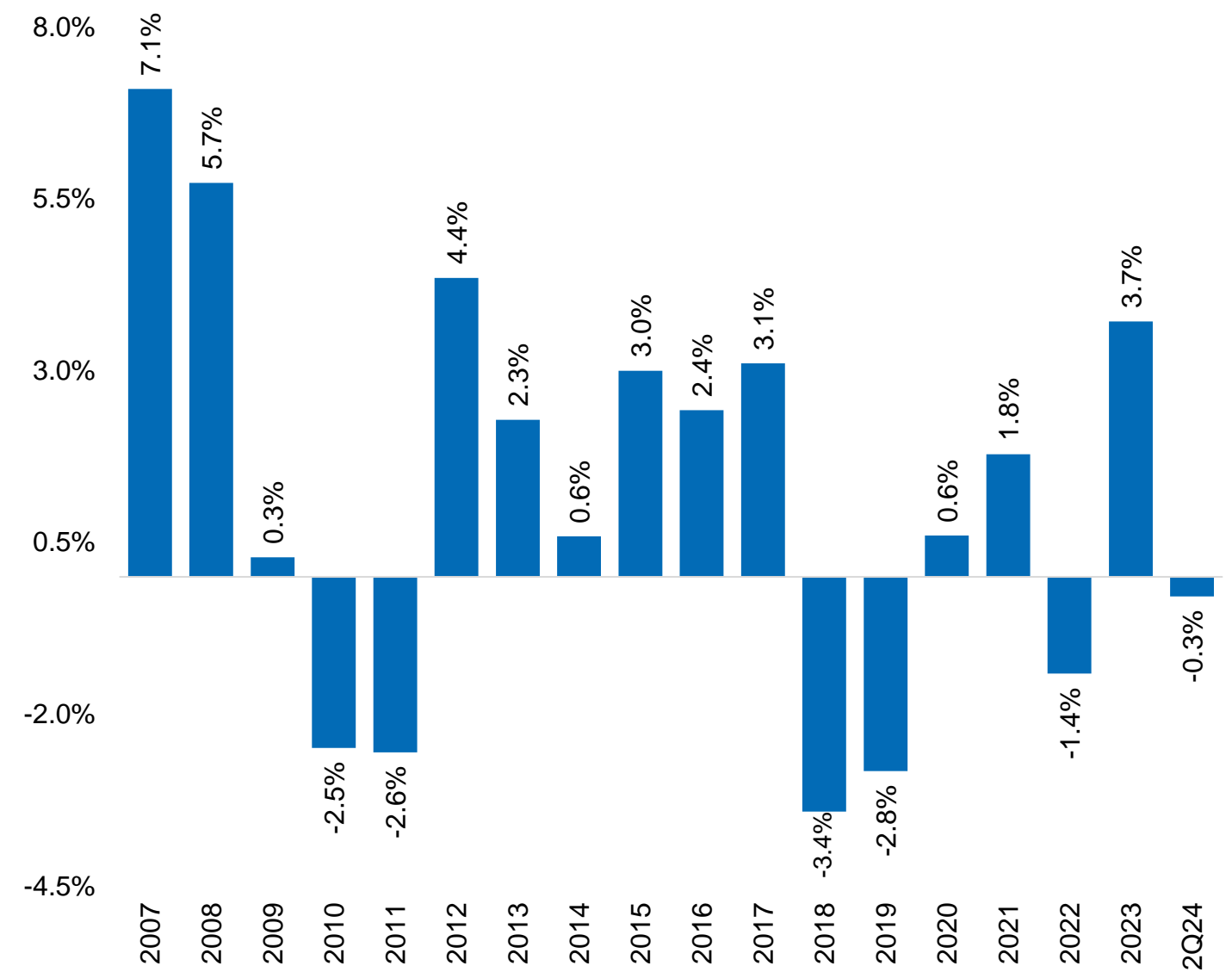
Landlords with High Quality Assets Remain Firm on Face Rents

With tenants like Indeed, taking up higher quality space and leaving behind lower-priced assets that are added to the market, the direct average asking rent decreased slightly to \$38.40/SF, from \$38.68/SF in the first quarter and \$38.72/SF last year. However, with high construction costs and to justify large concession packages, landlords remain firm on face rents, and those with high quality assets continue to fetch premium rents. In general, average pricing remains 6% above the historical average of \$36.00/SF.

Office Average Asking Rent, \$/SF/Month, FS



Year-over-Year Asking Rent Growth Rate

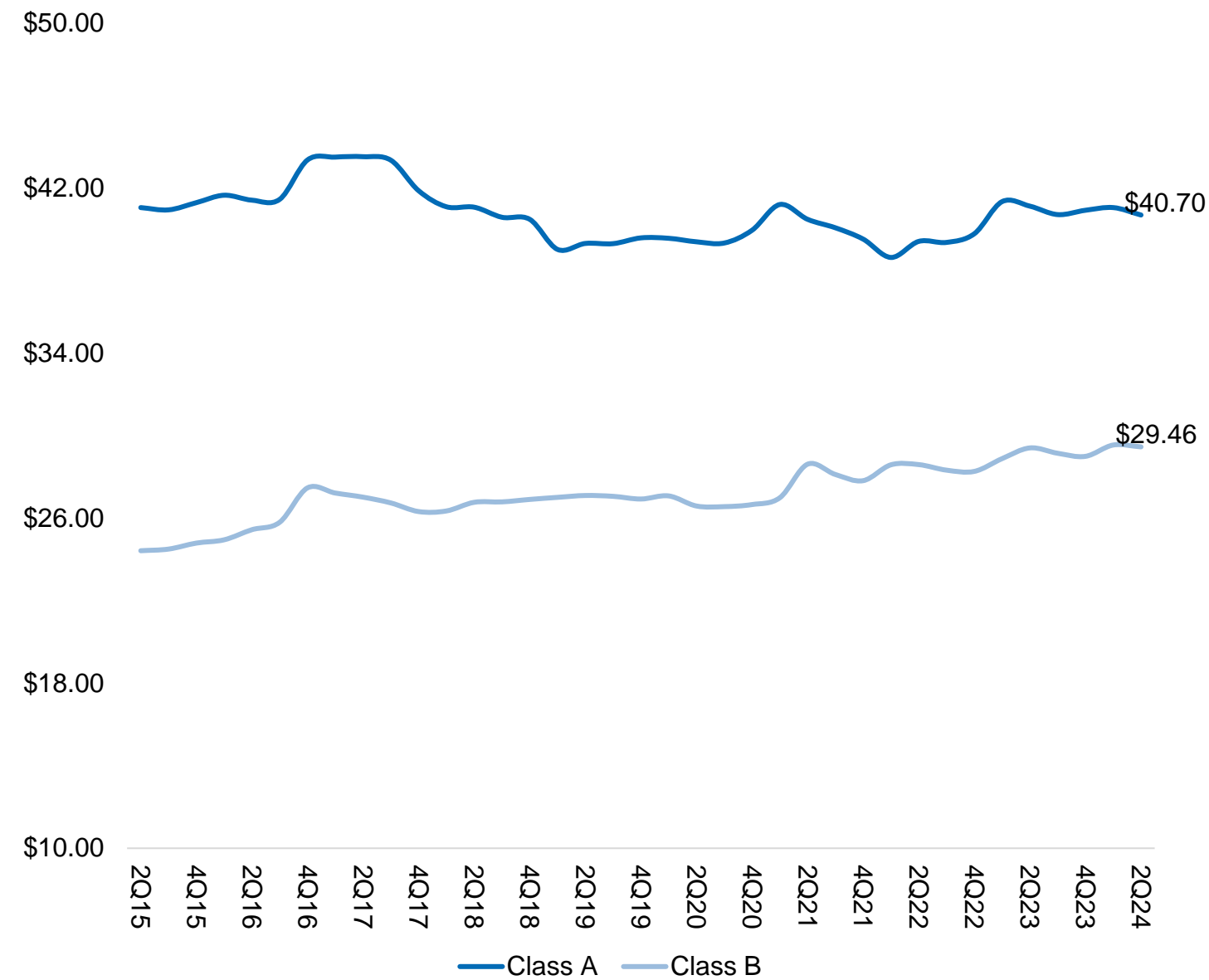


Source: Newmark Research

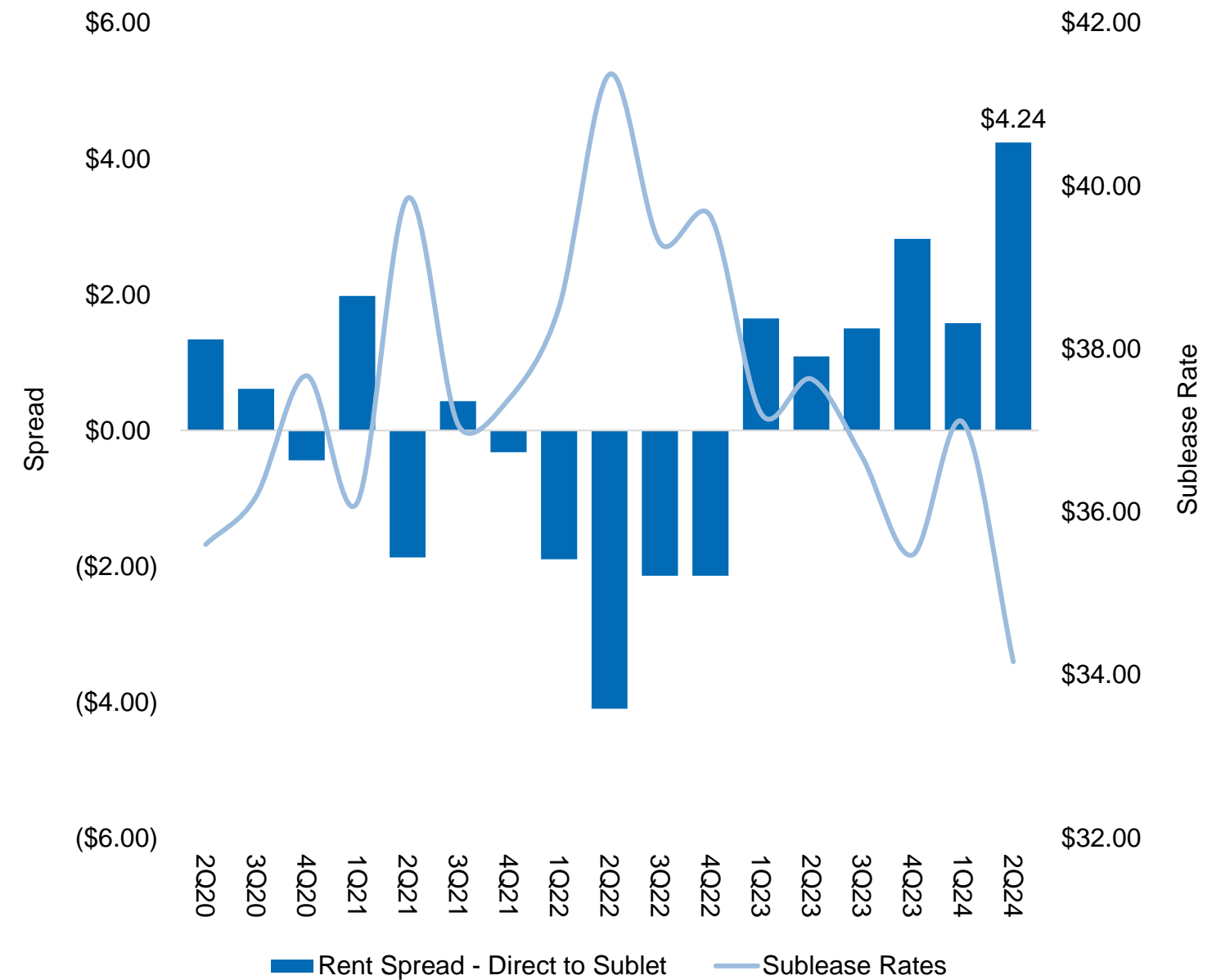
Rent Spread Between Direct and Sublease Space Up by \$4.24/SF

With large higher-priced product being absorbed this quarter, leaving behind lower price tag availabilities, the Class A direct average asking rate moved down slightly to \$40.70/SF. Class B rents remained stable at \$29.46/SF. Sublease rates dropped to \$34.16/SF, as sublease offerings by Henkel in Stamford and FactSet in Norwalk were absorbed. With fewer high-quality sublease offerings, the rent spread between sublease and direct space widened by \$4.24/SF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research

Major Deals Resurface and Boost Total Leasing Volumes but Lead to Decreased Occupancy

There were six deals signed for more than 50,000 SF each in the second quarter, totaling 482,000 SF. This was a significant increase from an average of three to four deals in that size category, which typically amount to 400,000 SF. Despite some of these deals representing expansions, both deals signed at 200 Elm Street, Indeed's and Henkel's, involved shedding a combined 125,000 SF. Other firms shedding excess space this quarter included Xerox, Philips North America, Commonfund and McKinsey.

Notable Midyear 2024 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Indeed, Inc. <i>Local move out of approximately 200,000 SF, a downsize of 37% within the market</i>	200 Elm Street & 695 East Main Street	Stamford CBD	New Lease	124,180
Philip Morris International (PMI) <i>Tenant extended original space of 71,484 SF and signed a long-term deal on a 20,025 SF expansion</i>	400 Atlantic Street	Stamford CBD/Train	New Lease	91,509
Henkel of America <i>Renewal and downsize of approximately 50,000 SF</i>	200 Elm Street	Stamford CBD	Renewal	84,046
HomeServe <i>Local move and expansion of 10,000 SF</i>	45 Glover Avenue	Norwalk/Route 7	Sublease	66,107
Stamford Hospital <i>This new location, which is estimated to open to the public in late 2025, will serve to expand the hospital's ambulatory care network</i>	260 Long Ridge Road	Stamford Non-CBD/North Merritt Parkway	Short-term Lease	65,667
Timex Group USA, Inc. <i>Headquarter relocation from New Haven County, CT, where tenant owned and occupied approximately a flex 85,000 SF building</i>	6 Armstrong Road	Shelton/Eastern	New Lease	50,216

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Fairfield County Office Submarket Overview (Page 2 of 2)

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Fairfield County Office Submarket Map

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