

INVESTMENT FORECAST

OFFICE

New Haven-Fairfield County Metro Area

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2019

Southern Connecticut Draws New Companies; Rising Demand and Limited Construction Reduce Vacancy

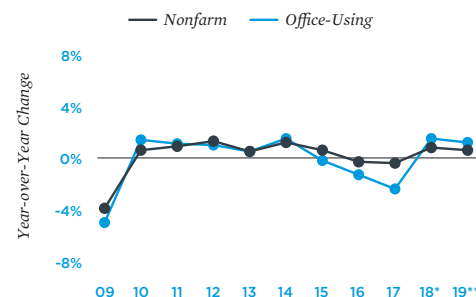
A historically modest construction pipeline aids vacancy and rent growth. More companies are opening offices in southern Connecticut, taking advantage of nearby high-quality universities and major population centers. Henkel is one such example. It relocated its North American consumer goods division from Scottsdale, Arizona, to Stamford last year. Cable company Charter is also contributing to rising office demand in the city. The firm has been growing rapidly since its move from St. Louis in 2012 and is building a new headquarters here for 2020. There are several deliveries scheduled for 2019 as well, located near major transit routes outside Norwalk, Milford, and New Haven. Total completions outnumber those from last year but are subdued this cycle, directing much of the region's leasing activity toward existing space. As a result, vacancy is falling for the second year in a row, with availability lower in the smaller office submarket of New Haven County. Fairfield County, meanwhile, has a vacancy rate just under 20 percent, but as that measure continues to drop this year it will incite growth in asking rents.

Low entry costs and high yields boost southern Connecticut's appeal. A low-7 percent average cap rate draws investor interest to the two-county region, especially for those priced out of surrounding larger metros. Sales velocity is rising the most in Norwalk and Bridgeport. A luxury mall under construction in Southern Norwalk will serve as an amenity for local office workers, improving demand for nearby assets. Bridgeport, in turn, offers some value-add opportunities, particularly for floor plans above 40,000 square feet. Investors are further incentivized by economical entry costs. Sales prices below \$50 per square foot are among the lowest in the region. While transactions involving Fairfield County properties are more common, buyers are also active in New Haven County. Less available stock built after 1980 contributes to cap rates here that exceed Fairfield County's low-6 percent average by more than 200 basis points.

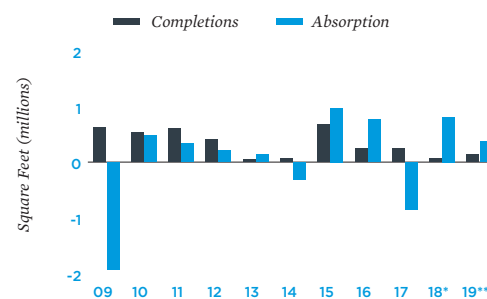
2019 Market Forecast

- Employment** up 0.6%  Office-based employment will grow by 2,200 positions, supporting the overall creation of 4,500 jobs in 2019.
- Construction** 130,000 sq. ft.  The development pipeline for 2019 more than doubles from last year's total. Completions are largely split among Shelton, Guilford, and Naugatuck.
- Vacancy** down 30 bps  The vacancy rate drops to 17.0 percent despite elevated construction activity. Additions for 2019 fall well below the cycle peak of 684,000 square feet delivered in 2015.
- Rent** up 1.8%  The average asking rent advances to \$29.04 per square foot this year after rates fell in 2018.
- Investment**  Proximity to Interstate 95 will remain a key attribute for Fairfield County assets, while in New Haven County offices near town centers see more buyer attention.

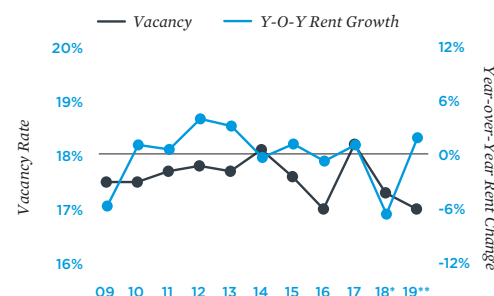
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Estimate; ** Forecast;

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.