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More deals anticipated as property operations improve

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The vacancy rate in New Haven and Fairfield Counties will remain in the mid-4% range through the rest of 2010 as the regional economy continues to stabilize. Job growth in adjacent New York City during the first three quarters of this year helped offset tepid hiring by local employers, generating rental housing demand and lowering the vacancy rate 40 basis points. Rent growth also resumed, pushing down concessions to 4.1% of asking rents from more than 5% at the peak of the recession last year. Overall, operating conditions will continue to strengthen gradually, driven by an increase in hiring during the fourth quarter and more vigorous job growth in 2011. The scheduled completion of nearly 850 units in the fourth quarter, though, partially will offset some of the recent reduction in vacancy. Despite the projected uptick in vacancy during that time, the market will still post one of the lowest rates in the country.

Although property performance improved in the first nine months of 2010, investment activity continues to lag. Expanded financing capacity, low interest rates and attractive cap rates will likely stimulate greater deal flow into 2011 as owners continue to rebuild property performance. Supply growth may emerge as a consideration for prospective buyers and sellers in the months ahead, as more than 900 units are slated for delivery next year. Specifically, large projects in New Haven and Danbury will add 452 units and 280 units, respectively, to rental stock in those cities in 2011. Existing properties near new complexes will face competition for tenants and likely contend with generous concessions, thereby delaying a recovery in property operations as the new assets stabilize. For other properties not subjected to competitive pressure from new stock, greater improvement in demand and more substantial rent growth will occur, keeping cap rates in the 7% range.

2010 ANNUAL APARTMENT FORECAST

Employment: The projected addition of 1,500 positions in the fourth quarter will partly offset cuts made during the summer. For the entire year, employers in New Haven and Fairfield Counties will add a combined 500 jobs, a 0.1% increase. Last year, 45,300 positions were lost.

Construction: Developers will complete 1,123 units in Norwalk and Stamford, representing all of the new product slated for delivery marketwide in 2010. Last year, 363 rentals came online in New Haven and Fairfield Counties.

Vacancy: The average vacancy rate will inch down 10 basis points this year to 4.5%, following a 60 basis point increase in 2009. In Fairfield County, vacancy will rise 20 basis points to 5.7%, while an 80 basis point drop to 2.2% will occur in New Haven.

Rents: Marketwide asking rents will increase 2% this year to \$1,551 per month, compared to a 4.5% plunge in 2009. Effective rents will rise 3.4% to \$1,490 per month, after falling 6.2% last year.

CONSTRUCTION

In the third quarter, developers completed two projects containing a total of 275 units, comprising

the only new product brought online in the market over the past 12 months. During the preceding year, 418 units were delivered.

An additional 848 units are under construction and scheduled for completion in the fourth quarter. These projects consist of the 311-unit Avalon Norwalk, 235 units at 597 Westport in Norwalk and the 302-unit One Common Park in Stamford. The deliveries represent a 2.8% increase in rental stock in Fairfield County.

Another 912 units under way are slated for addition in 2011. The largest of these projects is the 452-unit 360 State St. in New Haven which will become the first new complex in New Haven County since 2008 upon its completion in the first quarter.

Outlook: In 2010, developers will deliver 1,123 units, representing a 2.4% increase in rental inventory. Last year, 363 rentals came online.

VACANCY AND RENTS

Vacancy in the two counties fell 10 basis points in the third quarter to 4.2%. Thus far in 2010, a 1% increase in occupied units, or demand, has pushed down vacancy 40 basis points.

Outlook: Vacancy will decline 10 basis points this year to 4.5%. Asking rents will advance 2% to \$1,551 per month, while effective rents will increase 3.4% to \$1,490 per month.

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