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Witten sees the Southern Connecticut apartment market improve with new units absorbed ahead of expectations

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We have seen operating fundamentals in Southern Connecticut multifamily properties improve dramatically over the past few months. Demand for quality apartment properties in the region still outweighs the current supply and while transaction velocity is still off from the strong years leading up to 2008, the accompanying graph demonstrates just how strong the (improving) current market is. In the first quarter of 2009, 121 units traded for $8.325 million in Fairfield County. For the same period in 2010, only 73 units in three properties traded hands for just under $13 million ($177,000/door). The first quarter of this year is off to a solid start where we have recorded the sale of 553 units for just under $90 million or $162,116/unit. Based upon our knowledge of deals in the pipeline anticipated to close this year, we feel confident that 2011 will be an exceptionally strong year for multifamily trades in Fairfield County, Connecticut.

Fairfield County in Southern Connecticut is one of the few markets in the state that can support or financially justify new multifamily construction and it leads the state and region in apartment completions. Between 2005 and 2009 almost 1,400 new units came on line and REIS forecasts an additional 2,800 new units completed over the next few years. Not surprisingly, the bulk of new construction comprises luxury, A-quality properties in Stamford where new communities like 101 Park Place at Harbor Point (336 units) and The Blvd (94 'boutique' units) are leasing ahead of schedule redefining tenant profiles with rail-oriented development. Stamford, Conn., part of the Greater New York Metropolitan Area, is home to numerous major employers including Royal Bank of Scotland, UBS, Time Warner Cable, Pitney Bowes, World Wrestling Entertainment, Starwood Hotels, General Electric Company and General Re Corp. In 2010, Southern Connecticut experienced over 3.5% year-over-year rent growth, making it one of the top performing multifamily markets in the country (by comparison, NYC experienced 5.4% growth and Washington, D.C. saw 4.2% in an otherwise difficult year for apartment fundamentals). Vacancy rates for The New Haven-Fairfield County metro are forecasted to end the year around 4.5% for A quality properties - up a bit to compensate for absorption of newly constructed units. By 2014, vacancy is anticipated to drop to a precedent-setting 2.4% as new construction strives to keep up with demand in the rail-oriented communities of Stamford, Norwalk and lower Fairfield County. 2009 actually recorded negative rent growth in West Fairfield County where average asking rent dropped from $2,555 in 2008 to $2,448 in 2009 and we ended up at $2,490. By the close of business in 2010, we were back to $2,500. In all of Fairfield County, rents for A properties averaged $2,314 in 2008 but dropped to $2,200 in 2009. We ended 2010 at an average of $2,250 and we anticipate reasonable rent growth throughout Fairfield County over the next few years peaking in 2014.

We noted in January that 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.

There were a couple larger multifamily sales that closed in the past few months in Stamford but activity is just now heating up with a fair amount of transactions in the deal pipeline expected to close before year end.

As property cash flows and operating fundamentals continue to improve in Southern Connecticut over the next six to nine months, owners will be better able to establish values and substantiate asking prices in an otherwise very competitive market. The GSE's (Fannie and Freddie) remain active but local banks and life companies are back in force creating a more competitive lending environment and we fully anticipate this trend continuing. With reasonable per unit values and strengthening fundamentals, lenders are also beginning to fund capital expenditures and new construction in addition to acquisition. The strengthening economy and absorption of newly constructed units will continue to push vacancy lower in Southern Connecticut this year, solidifying the "Gold Coast" area's status as one of the top performing multifamily rental markets in the U.S.

Steve Witten is senior director of the Institutional Property Advisors Group of Marcus and Millichap based in New Haven, Conn.