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Strong employment growth to fuel Connecticut's multifamily market in 2008

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The apartment sector in Fairfield and New Haven counties will continue to record low vacancy and steady rent growth in 2008, helping to attract a larger pool of potential apartment investors. In the months ahead, tenant demand for rental housing will be driven by a modest rate of job growth in the market, and supplemented by strong employment in nearby New York City and Hartford. High home prices in Fairfield County and a healthy balance between housing supply and demand in New Haven County will also support solid demand-side measures for rental properties. As for new supply, projects scheduled for completion in 2008 will increase rental stock 1.6%, causing vacancy in the metro to creep to the high end of a traditionally tight band. Future construction in the market will be centered in Stamford, which possesses a large employment base, and in Bridgeport, where two large mixed-use projects with residential components are progressing through the pipeline.

Transaction velocity in the market increased last year and is expected to rise again in 2008. The growing number of deals is improving visibility of market conditions and eliciting more sellers. Class A properties in and around the city of New Haven and portions of Fairfield County, where single family housing is expensive, will likely trade at cap rates in the high-6% to low-7% range, up slightly from 2007. Meanwhile, Class B/C properties in centrally located communities, such as Waterbury and Meriden, will continue to attract buyers seeking to add value either by raising occupancy levels or by lifting rents to current market rates or higher.

After years of inexpensive capital flowing into the commercial real estate market, a drop off in demand for mortgage-backed securities has caused conduit lenders to scale back dramatically. The subprime residential collapse is largely to blame for the initial capital markets shock last summer, which caused a temporary shutdown of capital flows into commercial real estate. Residential subprime losses will climb further this year, resulting in overall volatility across credit markets. The commercial mortgage market has bounced back to some degree, but fears that lax underwriting standards have compromised the integrity of CMBS pools continue to swirl.

Moderate economic expansion is forecast this year, as healthy business investment and stronger export activity help to offset slower consumer spending growth and the drag of housing-related industries. Tighter residential lending standards are exacerbating housing market woes. Existing single family home sales are down 25% from one year ago, and available for-sale inventory has increased 45% to 10.5 months of supply. Apartment owners are facing added competition from shadow rentals as a result but will remain net beneficiaries of the housing downturn due to the expanding renter pool. In addition to greater apartment renter retention generated by more stringent mortgage requirements, owners will also benefit from the return of many homeowners to apartments as ARMs reset at substantially higher rates.

By the numbers, total employment in New Haven and Fairfield counties is expected to rise 0.6% this year with the addition of 5,300 workers, compared with 4,900 new hires in 2007. Approximately 2,900 jobs are expected in New Haven in 2008, one year after contraction in the manufacturing sector led to a decline in total employment. Builders are forecast to deliver 900 units this year, up from 700 units in 2007. All of the properties are in Fairfield County.

The marketwide vacancy rate is expected to climb 50 basis points to 4.2% in 2008. In Fairfield County, an increase in rental inventory and softer employment-generated demand growth will produce a 50 basis point increase in vacancy to 3.9%. Meanwhile, normal demand fluctuations in the smaller New Haven market are forecast to push vacancy up by 50 basis points to 4.8% this year.

Asking rents are expected to increase 3.8% this year to $1,626 per month, and effective rents will add 3.4% to reach $1,573 per month by the end of 2008. Investors looking for the next emerging area have a few in the market to consider. For example, the planned redevelopment of a 170-acre site in North Haven, once owned by Pratt & Whitney, could include 1.4 million s/f of job-generating commercial space.

Healthy job growth in Connecticut's major metropolitan areas, tighter mortgage underwriting and rising residential foreclosure activity are expected to generate solid demand for Connecticut apartment properties in 2008. Apartment development has remained in check, and only a moderate increase in completions is anticipated this year.

Steve Witten is a senior investment associate and senior director in the New Haven office of Marcus & Millichap Real Estate Investment Services' National Multi-Housing Group.