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The investment sales market throughout New Haven County is sluggish but improving

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The sales market for investment properties throughout New Haven County is continuing a sluggish, but improving pace, through three quarters of 2011. Overall velocity of sales transactions has increased by about 50% year to date over 2010 sales velocity. However, this is still about 50% off the volume at the height of the market in 2007. The general health of the market is showing slight improvement as we creep our way forward economically and distressed assets slowly trickle through the system. Market values vary widely depending on asset quality and lease risk factors.

The apartment segment has seen the biggest spike in sales activity. Access to debt capital was most accessible in this asset class as Fannie Mae and Freddie Mac continue to underwrite and fund the multifamily marketplace with capital. This allowed buyers to purchase and borrow at historically low interest rates and push cap rates down from the higher levels found in 2009 and 2010. The continued deterioration of the single family housing market has also benefited the apartment market. Those that would usually be interested in purchasing a home, are renting, which has help increase occupancy levels and income in the apartment sector.

Several recent apartment deals in the New Haven County market included a 312-unit affordable housing complex known as Sunset Ridge in New Haven. This property traded at \$45,000 per unit from Winn Residential to Belfonti Associates. Another significant transaction occurred in Meriden at Meeting House Village that included 251 units and traded in August for \$15.6 million or \$62,000 per unit. This was a 1970s vintage complex with average rents in the \$900 per month range. Pike International also sold a couple of apartment assets in Waterbury. 535 Scott Rd. included 164 units and sold for \$56,000 per unit and 99 Northridge Dr. included 182 units and traded for \$50,000 per unit early in the year.

Other areas showing some improvement are commercial properties that are significantly leased with long term tenancy. Assets that have limited vacancy exposure in good locations are seeing strong interest by a variety of buyers including private investors and REITs. These types of commercial investment properties have access to a variety of debt options including regional banks, life companies and limited CMBS interest from Wall Street firms. An example of this was the sale of 500 Derby Ave. in Derby a Lowe's anchored shopping center that traded at \$13.7 million at the beginning of the year.

Buildings being purchased by companies looking to occupy them for their own use have also increased marginally. This sector has benefited from favorable SBA financing available to

companies that occupy a majority of the space in a building. Examples of owner occupant purchases include the sale of 31 Waterfront St. in New Haven's port area which included a 120,000 s/f warehouse by New Haven Terminal. The buyer paid \$33 per s/f for this unheated warehouse property. Stone Academy purchased a 28,000 s/f Class C office building at 560 Saw Mill Rd. in West Haven for \$55 per s/f to be renovated to class room space.

There were few speculative transactions in the market. One deal that closed was the former Northeast Graphics building on State St. in North Haven. Mountain Development partnered with Marcus Partners to purchase the 400,000 s/f vacant former printing facility for \$9 per s/f. This market still has a way to go before developers move towards buildings with significant vacancy due to the lack of substantial leasing activity in the market.

Overall, the New Haven market has held steady over the year, with marginal improvements on sale velocity. Cap rates vary widely depending on building quality, stability of cash flows and location. As we come to the end of the fourth year of this down cycle, deals for opportunistic buyers should increase modestly over the coming months as lenders provide less leeway to borrowers with troubled assets. As a result, we should see a modest increase in note sales or REO properties in the market. Look to even more sales velocity as we end the year and go into 2012.

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