



# nerej

## **Southern Connecticut - One of the best performing apartment markets in the U.S.**

November 17, 2011 - Connecticut

Southern, Connecticut; specifically the New Haven apartment market has benefitted from its location between major employment centers in Boston and New York. Commuting professionals in search of affordable living are attracted to the area's key transportation outlets, including Amtrak stations and I-95. As a result, these heavily trafficked areas, as well as surrounding submarkets, have recorded considerable improvements in apartment operations. The market is also bolstered by the local education and health services sector, which has added 4,300 jobs year over year. Increased hiring at the Yale-New Haven Cancer Center and the Science Park will continue to fuel demand for local apartment units.

The limited supply of units is generating low vacancy rates across the metro, but this trend is likely to change as plans for the revitalization of the downtown area materialize. Specifically, the West Rock Redevelopment Program and the Downtown Crossing Project are expected to add more than 500 units to current stock. Transaction activity will pick up as buyers take advantage of operational improvements and historically low borrowing costs.

Local investors will continue to purchase larger B/C assets located in Waterbury and downtown New Haven, where operational improvements will likely be stronger. Cap rates will also be appealing to buyers, averaging in the high-7 to low-8% range.

### **RENT AND VACANCY TRENDS**

A steady increase in hiring since the third quarter of 2010 continues to boost demand for rental units in the New Haven area. The unstable housing market is also stimulating demand for renting, as median home prices fall 4% year over year. Apartment vacancy reflects this growth in demand, improving 110 basis points from last year to reach 1.9%.

In response to the considerable improvement in demand, owners raised asking rents to \$1,130 per month in the third quarter. Favorable market conditions have also allowed operators to cut concessions to eight days of free rent. As such, effective rents have jumped 1.5% to \$1,106 per month.

Vacancy will tick up to 2.1% during the slow fourth-quarter leasing season, but remain 80 basis points lower than last year. Asking rents will increase 2.1% to \$1,142 per month, while effective rents gain 2.3% to average \$1,110 per month.

### **CLASS CUT TRENDS**

Class A vacancy in the New Haven market is currently the lowest rate in the country. Aided by an increase in white-collar employment, the rate for top-tier properties in the market improved 130 basis

points in the last 12 months to reach 1.7%.

The market's Class B/C stock generated stable demand during the recession, reaching just 5.2% vacancy in the first quarter of 2007. Since that time, lower-tier vacancy has fallen 310 basis points to 2.1% in the third quarter.

Class A asking rents average \$1,373 per month, a 1.4% increase from the previous third quarter. Class B/C rents hiked up 1.3% in the last year to reach \$901 per month.

#### SALES TRENDS

Sales velocity accelerated 58% in the last 12 months, primarily due to historically low interest rates. A continuation of operational improvements also enticed local buyers, as NOIs reflected the market's progress.

The median price of \$55,600 per unit is down approximately 25% from the previous 12-month period. The decrease in price can be attributed to a shift in buyer interest to larger and lower-tier properties.

Cap rates average in the high-7 to low-8% range for the overall market, while some quality assets trade at yields that are 100 basis points lower. Last year, the few cap rates that were recorded averaged in the mid-7% range.

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

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540