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## **New Haven-Fairfield apartment market outperforms the nation**

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Often obscured by larger metropolitan areas, the strong showing of New Haven and Fairfield County apartment sector nonetheless stands out in the field of top-performing markets. Following a projected drop in the first quarter, the New Haven-Fairfield vacancy rate is approximately 100 basis points lower than national rate and is positioned to fall further by the end of 2012. Stable employment at primary employment hubs, including corporate campuses in Stamford and Yale University and its affiliates, has encouraged many residents to rent apartments. In addition, as a commuter region, New Haven-Stamford apartments continue to benefit from employment outside of the market, including Hartford, New York City and Westchester County. Renewed hiring in New Haven-Fairfield has also supported the creation of new rental households. Since the first quarter 2010, nearly 14,000 workers were hired in the region, contributing to net absorption of more than 2,500 apartments over that time. More recent employment trends have been somewhat sporadic, though, with job growth in the first half of 2011 followed by cuts in four of the final six months of the year. Preliminary figures indicate that employment expanded in the first quarter of 2012.

Payrolls in the two-county region will expand 0.5% through year's end with the addition of 3,800 jobs, primarily in the education and health services sector. Projected payroll additions will restore employment to 95% of its pre-recession peak. In 2011, 4,200 jobs were added in New Haven County, and 500 positions were shed in Fairfield, leaving a net gain of 3,700 regional jobs.

Developers did not bring any new market-rate multifamily properties online in the first quarter, but 624 apartments were completed over the past 12 months. Primary rental projects completed during the period include 280 units at the Crown Point at the Reserve in Danbury, and the 165-unit first phase of Lockworks at Yale & Towne in Stamford. Approximately 500 units with deliveries scheduled in 2012 are underway. Nearly all of the rentals are in Fairfield County. About 5,100 units are planned in the market, an amount equal to 10% of existing stock.

Marketwide vacancy ticked down 10 basis points in the first quarter to 4.0%. Vacancy in New Haven County dipped to 2.0%, the lowest quarterly reading in the past 10 years. Residents also occupied additional rentals in Fairfield, pushing down the vacancy rate there 20 basis points to 5.0%. Asking rents rose 0.7% from January to March, to \$1,613 per month, and have advanced 2.7% in the past year. Concessions waned to 3.8% of asking rents as effective rents rose 0.9% in the first quarter to \$1,552 per month. Year over year, effective rents have advanced 3.2%.

A mild winter likely aided leasing in the first quarter, a period during which a small number of transactions were completed. Investors remain attracted to the area's intrinsic drivers of tenant demand and relatively tempered pace of multifamily development. Projected completions this year will fall short of last year's total and nearly all of the new apartments will come online in Fairfield County. Notably, more than 2,000 rentals are now planned in New Haven County, a strong area

where vacancy typically resides at less than 3% and unfulfilled demand for rental housing persists. With its strong demand profile, investor interest in downtown New Haven assets remains keen, though many owners remain hesitant to sell despite cap rates in the 6% range. Cap rates in suburban communities in the county typically range about 50 basis points higher, while Fairfield County properties offer first-year yields generally ranging from 6.5% to 7.5% for non-institutional assets.

As the year progresses, small, local investors are expected to remain active as access to acquisition financing improves, and regional buyers will explore the market for higher yields than can be found in other Eastern markets.

Consumer spending and business expenditures in the region will boost employment and stimulate demand, from which the multifamily investment market will benefit commensurately. Unemployment rates have moved lower and, aside from pockets of weakness that remain, a more broad-based recovery in space market fundamentals across all property sectors, not just multifamily, is underway. Steve Witten is a senior director of Institutional Property Advisors, a division of Marcus & Millichap Real Estate Investment Services located in the firm's New Haven office.

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