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Investors, retailers seek quality in affluent New Haven market

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Retail operations in the New Haven market will improve moderately in 2012, as the economy expands at a measured pace. The education and health services sector will jump-start employment growth, with over one-third of the area's job gains. Healthcare hubs such as Yale New Haven Hospital, Bridgeport Hospital, and Greenwich Healthcare Services will generate significant traffic for nearby retailers and influence an increase in leasing activity. Shopping centers will be the primary beneficiaries, as most tenants that require larger spaces will be unable to find locations in downtown New Haven. Smaller markets such as Milford and Derby, however, have made efforts to mitigate the lack of quality retail space in their towns by initiating revitalization plans for the respective downtown areas. Developers have recognized the need for new supply, and will complete over 400,000 s/f of space in Fairfield County by the end of 2012.

Transaction activity in New Haven will maintain a sustainable pace in 2012, as investors wait for quality, low-risk assets to come to market. Most of these well-located properties are purchased in Fairfield County, near I-95. Multi-tenant complexes with healthy anchor tenants, such as fitness centers or national grocery stores, will continue to grab investors' interest. Cap rates for these properties can range from 7% to 9%, depending on the size and location. Meanwhile, first-year returns for single-tenant assets can vary from the low-6% area to the mid-8% range. As redevelopment plans come to fruition in Fairfield County, developers will emerge to pursue properties with additional land for commercial use.

2012 Market Outlook

- * 2012 NRI Rank: 19, Up 3 Places. A relatively weak employment market limited New Haven's rise in the NRI to three spots despite low vacancy.
- * Employment Forecast: Employers will create 3,000 positions in 2012, a 0.4% increase. In 2011, job growth reached 0.3%, aided by strong gains in the education and health services sector.
- * Construction Forecast: Developers are expected to add 450,000 s/f in 2012, mostly located in Fairfield County. The projected completions would be the largest increase to inventory since 2008.
- * Vacancy Forecast: Increased demand will outweigh new supply in 2012, allowing vacancy to drop 10 basis points to 7.2%. Last year, vacancy edged up 30 basis points.
- * Rent Forecast: Asking rents will rise 0.6% in 2012 to \$20.89 per s/f. Cuts in concessions will support a 1.3% increase in effective rents to \$18.31 per s/f.
- * Investment Forecast: Seasoned local investors will account for most of the sales in New Haven. These buyers often have a specific retailer in tow, or know the credibility of the current tenant mix at the given property.