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## **Low vacancy in New Haven and Fairfield sparks multifamily rent growth**

October 18, 2012 - Connecticut

A steady flow of residents moving into market-rate rentals and an accelerated pace of rent growth will carry the apartment sector in New Haven and Fairfield counties to solid results in 2012. Employment at long-standing establishments, including Yale University and its affiliates, continues to generate tenant demand and maintain extremely low vacancy in New Haven County. Net absorption easily surpassed newly completed units in Fairfield County, keeping vacancy on a downward slope. In the near term, New Haven and Fairfield counties will continue to benefit from growing rental housing demand. After witnessing some of the outcomes that can result from home ownership during the recession, many households are now renters by choice; but despite the positive shift in housing preferences, uncertainty regarding the election and the prospect of deep federal budget cuts may weigh on near-term job growth. As a result, the market's momentum may slip into a lower gear by mid-2013.

Payrolls in the two-county region grew by 4,700 workers in the first half, expanding employment 0.6 percent. Only 600 jobs were added in the second quarter, however. Manufacturing and financial services contracted in the first six months of the year, but other sectors picked up the slack. Hotels and restaurants, for example, added 1,300 workers, mostly in New Haven County. Additional hiring at physician's offices, outpatient service establishments, and hospitals resulted in the creation of 4,700 education and health services jobs. By year's end, total employment in New Haven and Fairfield counties is expected to have expanded 1.1%, or by 8,500 workers.

Developers completed 726 market-rate rentals in the market over the past year, with the 27-unit Saugatuck Center in Westport and 165 rentals in the Lockworks complex in Stamford placed into service during the first half of 2012. By the end of the second half, an additional 222 rentals will have come online, led by the 124-unit Parallel 41 complex in Stamford. The 250-unit Avalon Radcliff Park, located in Shelton, accounts for most of the 309 rentals under construction and is slated for delivery in 2013. Market-rate rental stock in the county will have expanded 0.9 percent by the end of 2012, through the completion of 414 units. An additional 5,200 rentals are planned, but only the 225-unit first phase of Norwalk Town Center has a start date. The project will break ground in the fourth quarter.

Vacancy declined 20 basis points in the first half to 4.1%. In New Haven County, vacancy was flat through the first two quarters at 2.5%, while the rate in Fairfield slipped 20 basis points to 4.9%. By mid-2012, asking rents had climbed 1.4% to \$1,624 per month and effective rents gained 1.8 percent to \$1,539 per month. The marketwide vacancy rate will have decreased 40 basis points by year's end, to 3.9%. Average asking rents will rise 2.9% to \$1,649 per month, accompanied by a gain in effective rents of 3.8% to \$1,597 per month.

Transaction velocity increased about 8% over the past year, based on a limited number of sales. Small investors accounted for most of the activity. Properties sold in the past year carried a median price of \$56,700 per unit, but a wide range of prices were recorded. Many small (B-/C) assets traded for less than \$40,000 per unit, but large, well located, well maintained B+/A properties traded between \$122,000 to \$280,000 per unit. The strong performance of the apartment sector in both counties will encourage investors to seek top-quality assets for core holdings in portfolios.

The New Haven/Fairfield County market remains a draw for local investors and also appeals to large investors seeking top-quality assets in desirable communities with high barriers to entry. Many of these communities impose barriers on building high-density multifamily rentals, but developers have nonetheless compiled a pipeline of planned projects totaling 5,200 units, representing about 11% of existing stock. However, almost none of the projects have start dates scheduled, leaving owners of existing properties an opportunity to log additional improvements in property performance without the challenge of new competition.

As the year's final stretch approaches, investors continue to take advantage of record low interest rates to finance acquisitions and refinance existing assets. Cap rates on local assets can vary by asset class and are influenced by a property's intrinsic demand drivers. Class A complexes in Fairfield County, for example, typically change hands from the low-5% range to just under 6%. Class A product in New Haven County trades a little higher, generally from the mid-5% range to about 6%.

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