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## **New Haven County - A healthy apartment market just gets stronger**

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Although property performance improved in the first nine months of 2010, investment (transaction) activity continues to lag. We mentioned in January that expanded financing capacity, low interest rates and attractive cap rates will likely stimulate greater deal flow into 2011 as owners continue to rebuild property performance. There were a few larger multifamily sales that closed in the past few months but activity is just now heating up with a fair amount of new inventory coming to market. Supply growth in New Haven County may emerge as a consideration for prospective buyers and sellers in the months ahead, as more than 900 units are slated for delivery this year but absorption doesn't appear to be an issue as New Haven continues to maintain high occupancy and healthy, anticipated rent growth. The largest of these projects is the 500-unit 360 State St. in New Haven which will become the first new complex in New Haven County since 2008 upon its completion in the first quarter. For well maintained properties not subjected to competitive pressure from new stock, greater improvement in demand and more substantial rent growth will occur, keeping cap rates in the 6 to 7% range.

**Employment:** The addition of 1,500 positions in the fourth quarter partly offset cuts made during the summer. For the entire year, employers in New Haven and Fairfield counties will add a combined 500 jobs, a 0.1% increase. Last year, 45,300 positions were lost.

**Vacancy:** The average vacancy rate will inch down 10 basis points this year to 4.5%, following a 60 basis point increase in 2009. In New Haven CBD we expect an 80 basis point drop to 2.2% will occur. In general, occupancy levels have improved to almost typical levels (New Haven was one of the best performing markets in the country last year); rental concessions are minimal or non-existent and we anticipate healthy, positive rent growth and high occupancy throughout most New Haven County markets as the spring rental season approaches.

**Rents:** Marketwide in New Haven for Class A product, asking rents will increase 2% this year to \$1,551 per month, compared to a 4.5% plunge in 2009. Effective rents will rise 3.4% to \$1,490 per month, after falling 6.2% last year.

Based on a limited number of sales, transaction velocity in New Haven County for 2010 increased 33% over the past year. We fully anticipate significantly more sales in the third to fourth quarters this year after a somewhat lackluster start. Property prices in New Haven generally range from \$50,000 per unit to \$70,000 per unit for B product and start at roughly \$100,000/unit for A quality suburban garden-style product. Cap rates average between high 5% to mid 6% range for A assets and 7% and 8% for stabilized B product in areas with strong demand generators. Assets with rents below market rate may list for less than 7% but offer near-term upside as rent growth accelerates (terms like value-add are back in investors vocabularies.) As property cash flows and operating fundamentals continue to improve over the next six months, owners will be better able to establish

values and substantiate asking prices in an otherwise very competitive market. The GSE's remain active but local banks and life companies are back in force creating a more competitive lending environment.

With reasonable per unit values and strengthening fundamentals, lenders are also beginning to fund capital expenditures in addition to acquisition. The strengthening economy will continue to push vacancy lower in New Haven County this year, solidifying the area's status as one of the top performing multi family rental markets in the country.

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