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Stable institutional core attracts new development to the Greater New Haven market

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Investors continue to demonstrate interest in the Greater New Haven multifamily market despite the recent capital markets shakeup and fallout in the subprime mortgage market. While investment sales velocity has slowed, the decline is due almost entirely to changes in the lending environment, as both private and institutional multi-family investors remain active in the market.

As of the first quarter 2008, employers shed approximately 2,800 jobs during the past 12 months, a decrease of 1% in employment in New Haven. Some hiring is expected to pick up during the second half of the year, resulting in a net loss of 1,500 positions, and a decrease of 0.4%. While forecasts point to job losses in most sectors, the education and health services sector is expected to add nearly 1,700 positions within the market in 2008.

There were not any new apartment units delivered to the market during the first quarter of 2008. There were no new units added to stock during the same period, one year earlier. New Haven County developers are expected to deliver 500 units to the market this year, up from 150 delivered in 2007. The majority of the new inventory is expected to be added to the Naugatuck submarket, which will cause an uptick to vacancy and a modest bump in concessions.

As of the first quarter, 2008, apartment vacancy within the New Haven market was 4.1%, down 100 basis points when compared to the same period one year earlier. Vacancy improvements were driven primarily by a lack of new stock reaching the market and a changing demographic as echo boomers desire better appointed properties. As forecasts point to elevated deliveries during the remainder of the year, vacancy is expected to rise as new inventory begins lease up. By year end, new inventory is expected to push vacancy near 5%.

During the past 12 months, same-store average asking rents rose 2.5% to \$1,074 per month, as of the first quarter, 2008. During the same time, effective rent growth outpaced asking growth, rising 4.2% to \$1,055 per month. The acceleration of effective rent growth is the result of tightening occupancy conditions. Effective rent growth is likely to decelerate toward the second half of the year as new inventory reaches the market and causes a slight rise in vacancy.

According to Costar, transaction velocity in New Haven County increased 46% in 2007. During the past year, apartments traded at an average per unit price of just over \$81,000 up significantly from \$67,000 per unit, recorded in the previous year. Some of the decline can be attributed to older, lower quality properties exchanging hands during the past year. During the past 12 months, properties have traded at cap rates in the mid to high 6.5 to 7% range.

New Haven has a stable institutional core, with four major colleges and universities and two nationally recognized hospitals. The area continues to benefit from a large, growing student population, who are traditionally renters, in a market that is supply constrained for both single and multifamily development. Sparked by its world-famous anchor, Yale University, New Haven

continues to attract new development, despite the nationwide economic downturn.

In March, Yale University unveiled plans to add two new residential colleges to its existing 12, which could lead a 12 or 13% increase in undergraduate enrollment, up to 6,000 students from 5,300. This would be the largest increase in the student body since the college began admitting women in 1969. Other projects destined to bring more renters to the area include the Ninth Square project, a mixed-use development comprised of a retail space and residential units; and College Sq., a 19-story mixed-use project on College and George Sts. that includes 220-plus residential units with 50,000-plus s/f of retail and hotel space situated on 2.5 acres.

The proposed \$430 million Yale-New Haven Hospital Cancer Center received state approval last year and is expected to create more than 500 full-time jobs, in addition to 350 construction positions. New Haven's Long Wharf area is also being revitalized along with several new development projects, including the 6-acre Coliseum site, which would incorporate the Long Wharf Theater on 2 acres, creating a mixed-use site featuring first floor retail and office and residential space on the upper floors.

In spite of the current economy and issues with the residential real estate market, multifamily properties remain the preferred investment vehicle with private and institutional investors and recent activity in New Haven County and other regional markets demonstrates the strength of the current apartment market in Connecticut.

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