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In the present economy prices continue to increase for New Haven assets marketwide

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As the economy continues to weaken and job market struggles in New Haven will persist through 2009, low housing affordability and a reduced pace of apartment construction are expected to keep vacancy fairly tight. At the end of 2008, the greater New Haven region reported a loss of 13,449 jobs and by year-end 2009, that number is expected to reach 19,000, a decline of 2.4%. Although contraction of the professional and business services and financial activities sectors will slacken top-tier rental demand this year, Class A properties in the New Haven Harborside submarket should perform well due to the area's relatively affordable rents when compared to other areas of Fairfield County. The greatest strains are expected in tertiary submarkets such as Naugatuck/Waterbury, where rent gains will moderate and vacancy should creep higher as renters begin to double up. Elevated land and construction costs have historically insulated the metro area from overbuilding, and developers are responding to local economic uncertainty by slowing apartment deliveries in 2009 and in the years to come.

In greater New Haven, development is expected to slow with only 322 new units planned to come on line by year's end. In 2008, 600 apartments came on line. Vacancy is projected to increase 60 basis points to 5.3%, which is tight compared to many other markets across the country. Last year, vacancy rose 100 basis points. Asking rents are expected to average $1,582 per unit, which indicates an increase of .9% on a year-over-year basis. Effective rents are expected to remain unchanged on a year-over-year basis, averaging $1,523 a month. Overall, rent growth in New Haven will likely be most significant in the lower tiers, where vacancy remains tight.

Investors still remain interested in New Haven apartment assets. Following a steady decline in 2008, investment activity in New Haven could gain some momentum this year. According to first quarter 2009 estimates, velocity has increased 24% on a year-over-year basis. In 2008, investors' fears of the added risks associated with lower-tier assets limited transactions to mostly Class A properties. The median price for properties has escalated from $64,750 to $95,900, which is likely attributed to a high number of Class A properties trading over the past 12 months. While reduced investor demand for properties in lesser locations will continue, buyers are expected to target Class B/C apartments in top submarkets. Buyers will likely target lower-tier properties in the New Haven core, Hamden and the Fairfield/Bridgeport/Trumbull triangle, where students represent a consistent pool of renters. Fewer Class A transactions and the presence of low-leverage opportunistic buyer funds will likely result in a shift in pricing trends, causing cap rates to increase to the mid to high 8% range.

Despite slightly weaker fundamentals, investor interest in local apartments should persist. Still-high single-family home prices will support continued activity in assets marketwide, although Class B/C properties may make up a larger share of closed deals than in recent years.

Currently, there is a clear divergence of strategies in the apartment investment marketplace, with some investors focused on the long-term, inherent value of apartments and others looking for opportunities created by distress and discounting for those properties that have to clear the market. There is merit to both strategies, but those investors focused primarily on the latter run the risk of missing attractive buying opportunities. Outside of major development deals, failed conversions and highly leveraged transactions closed at the market's peak, most apartment assets are performing relatively well in New Haven and offer strong opportunities for long-term value growth, as supply constraints favor price appreciation over the longer term. While we anticipate some distress in the market, there are several forces that should prevent it from spreading to the broader marketplace. Most importantly, development will remain limited, which bodes well over the long term for the New Haven apartment market.

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