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Strong renter support exists for Class B and C properties in New Haven

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With an apartment vacancy rate of less than 5% midway through 2009, the New Haven-Fairfield market measures up well against others across the country. To be sure, fundamentals will weaken over the remainder of the year as ongoing employment reductions further soften housing demand. In New Haven County, a rise in job losses in the second quarter could push up near-term vacancy, although projected year-end vacancy of about 4% is considered tight. The strength of the market continues to be exemplified by the performance in New Haven County and the resiliency of the metro area's Class B/C sector. Year-to-date, the lower tiers have posted only a 20 basis point increase in vacancy to 4.5%, while asking rents have slid 0.4%. In comparison, Class A properties in the market have registered a 140 basis point jump in vacancy to 5.2% and a 2.4% drop in asking rents. Additional employment cuts will likely result in higher vacancy in the top tier as tenants double up or move down to lower-cost units.

This year, 24,000 jobs are expected to be lost in New Haven and Fairfield Counties, a 3% drop. In 2008, 20,400 positions were eliminated. By county, 13,000 jobs are forecast to be cut in Fairfield, while 11,000 positions will be shed in New Haven.

Investment activity thus far in 2009 has been dominated by sales of smaller properties. Although ongoing challenges in the credit markets have slowed transactions for all sizes of apartment complexes, sales of large assets in particular have been stymied by an idle commercial mortgage-backed securities market. Indeed, few large properties have sold in the past six months. Property underwriting, meanwhile, continues to focus on the likelihood of higher near-term vacancy and greater use of concessions to retain and attract tenants. Marketwide concessions will net revert to pre-2009 levels until employment growth stimulates housing demand, possibly sooner in areas of New Haven County where vacancy remains low and supply growth has been minimal. Nonetheless, the prospect of solid long-term asset performance for investors remains intact, especially in areas with stable renter demographics, such as New Haven, Norwalk, West Haven and Waterbury.

Weaker employment has contributed to a 2.1% drop in the Fairfield County median household income to \$82,075 in the 12 months ending in the second quarter. A 1% decline to \$60,900 annually was recorded in New Haven County over the same period. In terms of housing affordability, homes in the market are affordable, yet the prospect of falling or stagnant income levels and a greater aversion to debt will keep home buyers well-below peak levels recorded a few years ago, sustaining a sizable pool of renters.

A minimal number of apartments have been completed in the market over the past five years and construction activity continues to slow. Approximately 336 units have been added to rental stock in the last 12 months, compared with 642 units in the preceding year. So far this year, 281 units have been put into service. All of the units are in Fairfield County. Approximately 3,800 units are planned

in the counties - 2,000 in Fairfield and 1,800 apartments in New Haven.

Despite the job losses, the average vacancy rate in the New Haven-Fairfield market fell 60 basis points in the second quarter to 4.8%. Year-to-date, however, vacancy has climbed 70 basis points, reflecting the effects of the recession on housing demand. Job losses will erode rental housing demand further, pushing up the marketwide vacancy rate 130 basis points this year to 5.4%.

The decline in vacancy in the second quarter came at the expense of rents. Asking rents fell 1% in the period to \$1,570 per month, while effective rents receded 1.5% to \$1,493 per month. Current concessions are equal to 4.9% of asking rents, up from 4.5% of asking rents in the first quarter.

At the end of 2009, asking rents are forecast to fall 2.9% to \$1,547 per month, and effective rents are projected to decrease 4.9% to \$1,462 per month.

In terms of sales trends, fundamentals in the market are expected to stay relatively flat in the short-term months ahead with healthy improvement anticipated by mid-2010. Investors will continue to underwrite deals to reflect greater use of concessions, especially in Class A properties in the region. It's an odd time in New Haven and Fairfield Counties where in spite of current economic pressures, demand for quality multifamily properties still heavily outweighs supply. It continues to be an excellent time to sell and based on reasonable underwriting - a sensible time to buy.

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