

# ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

New Haven-Fairfield Metro Area

Second Quarter 2010

## TIGHT CAPITAL MARKETS DRIVING INVESTORS TO SMALLER ASSETS

In southwestern Connecticut, improving economic conditions have yielded only modest changes in apartment fundamentals. Both the Fairfield and New Haven MSAs posted job growth during the first quarter, an event that has not occurred in both areas since the fourth quarter of 2007. Additionally, vacancy rates in each metro remained steady in the quarter, and rents increased modestly. While the apartment market recovery will gain momentum in the second half of the year, consecutive quarters of job creation will be required to spur household formation and buoy housing demand. Further, stabilized vacancy during the first quarter can be attributed partly to a lack of major apartment deliveries since mid-2009. While builders will ramp up completions through the rest of the year, increasing competition for renters, deliveries will be concentrated in the Fairfield West submarket, placing only mild pressure on operations in non-neighboring submarkets.

Although investment activity remains at depressed levels in the Fairfield and New Haven counties, local buyers continue to make acquisitions, capitalizing on decreased competition due to a smaller pool of investors. The median price has increased in both counties over the past year, though the gains are likely attributable to tight lending; constrained debt markets have caused buyers to focus on smaller properties, which generally trade at higher per-unit prices. In transactions made in Fairfield County during the last year, the average deal size was nine units, compared with 38 units in the preceding 12 months, while the median price surged 36 percent. In the two major on-market transactions involving assets with eight or more units conducted during that time, the median price was \$96,070 per unit, 7 percent below the previous year's median. Similarly, in New Haven County, the average sold property size has plummeted 73 percent year over year to 40 units. The median price, meanwhile, has climbed due to smaller property sizes, more upper-tier asset sales and milder rent declines.

## 2010 ANNUAL APARTMENT FORECAST



**Employment:** Southwestern Connecticut employers will add 8,200 positions in 2010, a gain of 1.1 percent. Economic headwinds drove local businesses to trim 45,600 jobs last year.



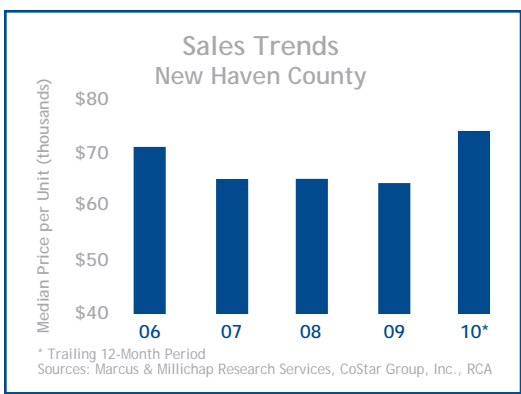
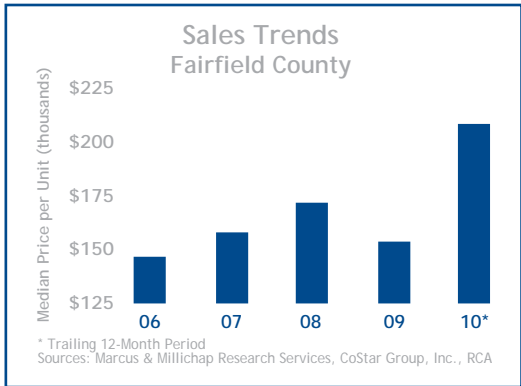
**Construction:** As construction activity picks up over the remainder of the year, a total of 810 rental units will come online. Approximately 360 units were added to local apartment inventory in 2009.



**Vacancy:** Supply growth will increase vacancy by 20 basis points to 4.8 percent in 2010, after the average rate rose 60 basis points last year.



**Rents:** Asking rents will tick up 0.8 percent to \$1,533 per month this year, and effective rents will gain 0.5 percent to \$1,448 per month. In 2009, asking and effective rents plummeted 4.5 percent and 6.2 percent, respectively.



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## CONSTRUCTION

- ◆ The recession has caused many developers to cancel or delay apartment projects over the past year, as just 120 market-rate rentals have been delivered in the counties. In the preceding 12 months, 425 units came online.
- ◆ Permitting activity continues to decline. Single-family permit issuance has dropped 14 percent to 860 units in the last year, while the number of multifamily permits pulled has fallen 37 percent to 790 units. In the previous 12-month span, single-family and multifamily permitting activity decreased 53 percent and 11 percent, respectively.
- ◆ Despite limited construction lending, 1,875 units have been planned in New Haven County, while 1,500 units have been proposed for Fairfield County.
- ◆ **Outlook:** As construction activity picks up over the remainder of the year, a total of 810 rental units will come online. Approximately 360 units were added to local apartment inventory in 2009.

## VACANCY AND RENTS

- ◆ Economic contraction and subsequent shifts in renter demand have underpinned erratic vacancy trends. In the six months ending in the first quarter, vacancy increased 20 basis points to 4.6 percent, following a 90 basis point decline in the prior two quarters.
- ◆ Asking rents have retreated 2.7 percent in the past year to \$1,527 per month, while effective rents have fallen 3.5 percent to \$1,447 per month. In the previous 12-month period, asking rents ticked 0.1 percent higher, though effective rents regressed 1.6 percent.
- ◆ In both counties, weak demand has pushed down average revenues 2.8 percent in the last 12 months, after revenues decreased by 2.3 percent in the preceding year.
- ◆ **Outlook:** In 2010, supply growth will drive up vacancy 20 basis points to 4.8 percent, after the rate rose 60 basis points last year. Asking rents will tick up 0.8 percent to \$1,533 per month, and effective rents will gain 0.5 percent to \$1,448 per month.

## SALES TRENDS

- ◆ Tight capital markets and declining revenues continue to slow investment activity. Since the first quarter of 2009, deal flow has retreated 45 percent, following a 37 percent decrease during the previous year.
- ◆ An increased number of small assets trading has caused the median price to rise 6 percent to \$92,860 per unit over the last year. In the prior 12 months, the median price appreciated 12 percent.
- ◆ In the past year, cap rates have increased an average of 60 basis points to the high-7 percent to low-8 percent range. Initial yields for top-quality assets start at approximately 6.5 percent.
- ◆ **Outlook:** Deliveries will be concentrated in the West Fairfield County sub-market this year, which will increase competition for renters and weigh on property performance in the area. Operational challenges will, in turn, drag on revenue gains and loan underwriting, creating opportunities to acquire assets at a discount through the near term.