Multifamily Research
Market Report
New Haven-Fairfield County

Second Quarter 2016

New Haven-Fairfield Rental Demand Spurs Suburban Investments

The New Haven-Fairfield rental market is driven by a diverse mix of housing demands, with the greatest concentration of renters choosing to live along the I-95 corridor. While the metro's median income is enough to support the purchase of a median-priced home, the large downpayment required and transitional population will likely keep many in the renter pool for a long duration. In west Fairfield County, a sizable portion of demand is from Manhattan commuters who are attracted to the area's affordability compared with New York City rents. As employment growth continues to escalate in the city, the increasing demand from commuters who desire to live in the Stamford/Norwalk submarket has enticed developers to concentrate the bulk of their building efforts here and its suburban areas. Expanding supply is applying pressure on occupancy rates as well as net effective rent growth as concessions remain prevalent in the Class A market. Traveling farther northeast on I-95 to New Haven, numerous colleges and universities as well as steady job gains are supporting construction activity to fulfill housing needs. Measured additions to the New Haven-Fairfield County multifamily sector that meet a desire for relatively affordable rental housing compared with New York City will keep vacancy compressed, allowing modest rent growth and contributing to revenue increases.

The metro's multifamily assets will remain in favor with investors this year as yields for well-operating properties are higher than what is found in nearby areas. Class C complexes, the most commonly traded, have initial yields in the high-6 to high-7 percent range while Class A properties can drop to the low-5 percent to low-6 percent territory. A limited number of assets available in New Haven and Stamford have buyers increasingly looking to suburban areas of the metro. As developers bring more properties to market over the next year, competition among assets of similar quality may begin to rise, particularly in Stamford/Norwalk. Investors in search of apartment complexes in the $1 million to $10 million range will find attractive listings in the submarkets of Bridgeport/Danbury and Waterbury/Meriden/Hamden; assets in these parts of the metro on average have a price per unit far below the metrowide average. Leveraged yields continue to be the most compelling available in all classes from Northern New Jersey to Boston.

2016 Multifamily Forecast

1.3% increase in total employment

Employment:
After creating 5,000 jobs in 2015, New Haven-Fairfield County employers are set to add 10,500 individuals to the local workforce this year, a 1.3 percent annual increase to total employment.

2,100 units will be completed

Construction:
This year developers will add 2,100 multifamily units to the metro, a reduction from the 3,550 apartments that were delivered in 2015. Builders are focusing on the Stamford/Norwalk submarket with increasing interest in the area of Bridgeport/Danbury.

0 basis point change in vacancy

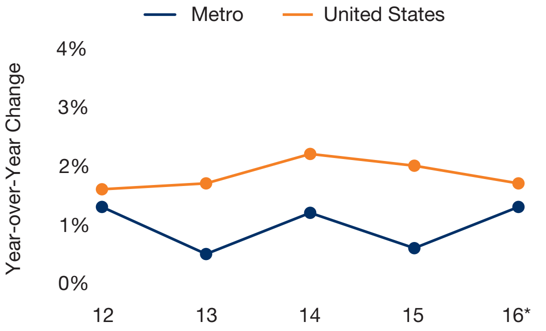
Vacancy:
This year moderate development and steady demand for rental housing will keep vacancy at 3.4 percent, on par with the end of 2015. Net absorption is expected to total just over 2,000 units in 2016.

1.6% increase in effective rents

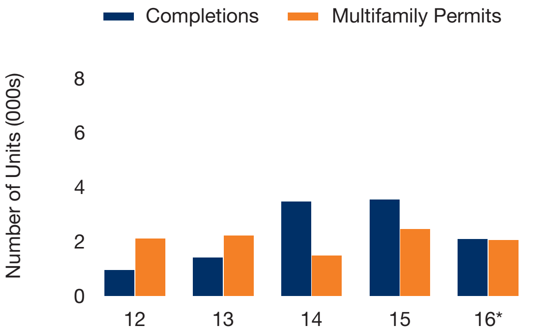
Rents:
Market demand for housing will create upward pressure on rent this year, advancing average effective rent 1.6 percent to $1,635 per month. In 2015, effective rent closed the year at $1,609 per month, an 18.3 percent pace of growth since 2011.

Marcus & Millichap

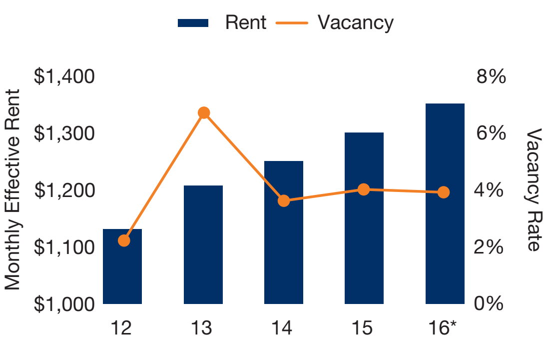
Employment Trends



Construction Trends



Vacancy and Rent Trends



* Forecast

Employment

- In the first three months of 2016 local employers added 1,800 positions. That equates to job creation over the previous 12 months of 7,600 new roles, a 1 percent increase to the workforce from last March.
- Employment growth over the last four quarters was led by the leisure and hospitality sector, which grew staffs by 3,100, a 4.2 percent year-over-year increase. The education and health services sector also contributed to healthy job creation, forming 1,500 positions, an increase of 0.9 percent annually.

Outlook: Employers will generate 10,500 jobs in the metro by year end, a 1.3 percent increase to the local workforce. Last year, 5,000 positions were created.

Construction

- During the first quarter, developers completed 330 multifamily units, bringing the amount of additions over the trailing 12-month period to 2,900, representing a 1.3 percent year-over-year climb. Currently, more than 2,000 units are under construction throughout the metro with completion dates extending through 2018.
- In the Stamford/Norwalk submarket, developers added 730 units over the last 12 months ending in March, through the completion of four complexes. Presently, nearly 900 units are under construction in this submarket.

Outlook: This year, builders will bring 2,100 multifamily units online, half of which are scheduled for completion during the third quarter. In 2015, developers delivered 3,550 units.

Vacancy and Rents

- Strong demand for rental housing over the past year pushed vacancy down 150 basis points to 4.0 percent in March. The tightest vacancy is north of Norwalk to New Haven and into Danbury where the vacancy continues to remain under 3.0 percent.
- In the first quarter, average effective rent climbed 1.8 percent from one year earlier to $1,628 per month. Rent in the Stamford/Norwalk submarket rose 4.0 percent during this period to $2,349 per month, the highest in the metro. The Bridgeport/Danbury submarket recorded a 1.9 percent increase to $1,376 per month.

Outlook: By the end of 2016, vacancy will fall to 3.4 percent, on par with the amount of available space at the end of last year. Rent will grow 1.6 percent to $1,635 per month.

Sales Trends

- Strong opportunistic investor interest pushed transaction velocity up 37 percent over the last 12 months compared with the previous period. Due to more Class B/C properties trading this past period, the average price per unit dipped 4 percent to $168,370 per door.
- Average first-year yields for multifamily assets were unchanged from last March at 6.5 percent. Class C complexes, the most-traded type, had an average cap rate in the high-6 percent to high-7 percent range while Class B properties traded in mid-5 percent to high-6 percent territory.

Outlook: Multifamily investments will continue to be active in the metro as yields are on average 100 basis points greater than assets in Boston and 180 basis points greater than New York City properties.

Prepared and edited by

Michael Murphy
Research Associate | Research Services

For information on national apartment trends, contact:
John Chang
First Vice President | Research Services
Tel: (602) 687-6700
john.chang@marcusmillichap.com

Price: $250