Comparative Affordability Attracts Commuters; Yield-Driven Buyers Active in Connecticut

New demand paces supply additions. A broad range of demand drivers will contribute to stable growth in the New Haven-Fairfield County multifamily sector in 2017. Demand in the Fairfield market is largely fueled by the healthcare, technology, hospitality and financial services sectors, along with cost advantages to New York City workers as rents can be up to $2,000 less in certain areas. This has driven developers to Fairfield County in greater numbers, particularly to the Stamford-Norwalk metro where several developments are within walking distance of commuter rail. East along I-95 into New Haven County, steady job growth among higher-paying biotech firms, along with prestigious universities and world-class healthcare, will supply a healthy level of tenants to the market. A high propensity to rent among the younger cohort and modest increases to supply will hold the vacancy rate in New Haven below 4 percent this year. Rent growth across the region will be buoyed by new Class A construction.

Favorable yields grow buyer interest. Buyers will shift capital to the New Haven-Fairfield market, where initial yields run higher than nearby metros. Steady development and growing rents will fuel both institutional and private client interest in Stamford, Norwalk and New Haven while a rise in the number of smaller properties will draw the attention of private investors. The shortage of listings in the market holds down deal flow, creating periodic supply-and-demand imbalances that drive prices higher. Some of the best properties in the area command prices in excess of $350,000 per unit. Value-add assets are also highly sought after. Class B complexes can range from a mid-5 to mid-6 percent cap rate depending on location and provide additional performance upsides upon renovation. Cap rates for Class A assets can drop to 5 percent territory while Class C offerings start in the upper-6 percent band, a 180-basis-point lift compared with similar assets in New York City.

2017 Market Forecast

NMI Rank
41, up 3 places
New Haven-Fairfield County's tightening vacancy and limited development advanced the market's ranking.

Employment
up 0.8%
Employers will create 6,500 jobs in 2017, short of last year's total of 8,000 positions. Job growth in 2016 was led by the financial activities sector.

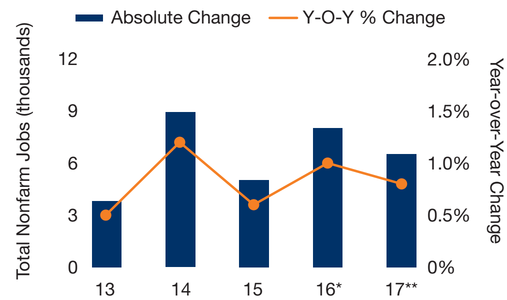
Construction
1,400 units
This year, 1,400 rentals remain on track for delivery. Approximately 1,600 units came online last year.

Vacancy
down 10 bps
Net absorption of 1,460 units this year will compress the vacancy rate 10 basis points to 3.2 percent and erase last year's increase.

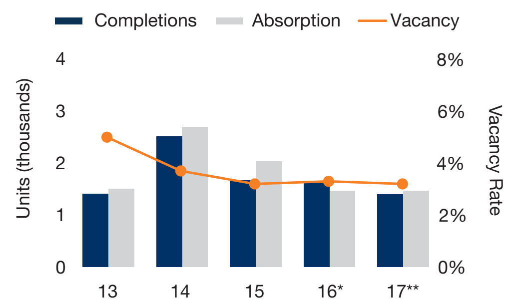
Rent
up 2.0%
Demand for rental units will bring the average effective rent to $1,665 per month in 2017, a 2.0 percent increase from last year. The average rent rose 4.2 percent in 2016.

Investment
A $100 million development plan was approved in New Haven between the downtown and the Hill neighborhoods. The site can accommodate in excess of 500,000 square feet of research and office space and will include approximately 150 rental housing units.

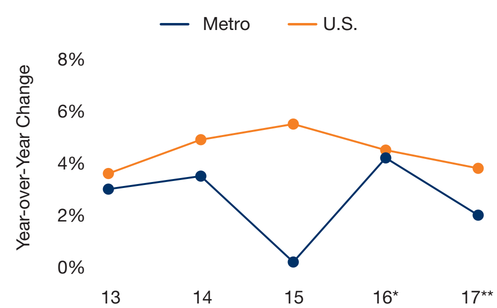
Employment Trends



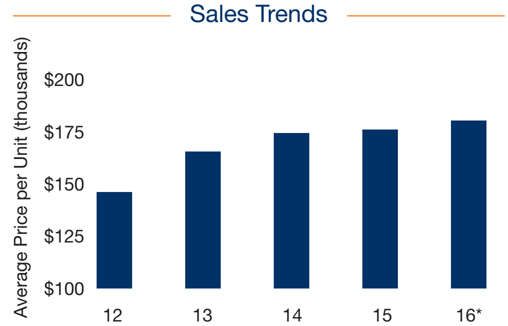
Supply and Demand



Effective Rent Trends



Sales Trends



* Estimate ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics