IPA Institutional Property Advisors
A Division of Marcus & Millichap

Multifamily Research

2018 INVESTMENT FORECAST

New Haven - Fairfield County

Elevated Construction Restrains Market Despite Increased Commuter Demand

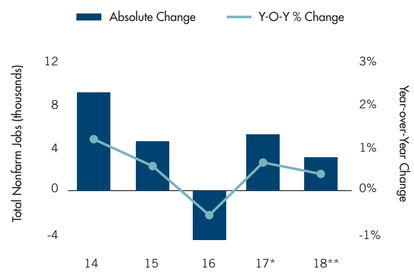
Development overshadows positive dynamics in near term. Incredibly tight housing market conditions in New York City are spilling over into southern Connecticut as tenants explore more affordable housing options. With the spread between the two locations exceeding $1,000 per month on average, households have opted for longer commutes in exchange for significant savings. The resulting strength has prompted an elevated development pipeline, which has begun to weigh on the headline vacancy rate as net absorption fails to keep pace with supply growth. Although the overall amount of new additions will contract moderately in the year ahead, a fifth straight year of construction in excess of 1,200 units will place upward pressure on the vacancy rate and prompt a higher-concession environment as new properties lease up. Rent appreciation will remain muted in the current environment, ticking up by a low-single-digit percentage over the coming year.

Class B and C assets coveted by investors as renters seek out affordability. Seeking higher yields than are available in the New York City metro, buyers have flocked toward properties with first-year returns that will begin in the mid-5 percent band, as much as 200 basis points above prime locations in Manhattan and Brooklyn. Mid- to large-scale assets will draw institutional capital sources, particularly properties along the Metro North train route in Stamford or Bridgeport. However, smaller deals containing less than 20 units and priced under $10 million are making up the bulk of transactions; yields can push up into the mid-6 percent band. The Class C product in most of these trades remains insulated from the new supply coming to market, providing security to cash-flow-motivated buyers. Furthermore, the influx of development in the Class A segment will provide options for institutional capital seeking new construction as merchant builders look to exit.

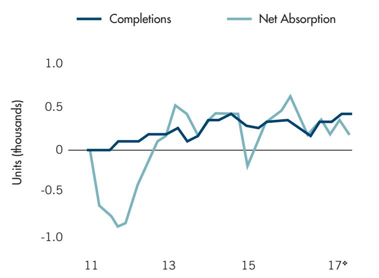
2018 Market Forecast

Employment up 0.3%	Organizations add 2,500 jobs this year, advancing hiring by 0.3 percent as low unemployment triggers a hiring slowdown. In 2017, 5,000 positions were created.
Construction 1,200 units	Development ticks lower in 2018 as builders complete 1,200 rentals, led by 750 units in Stamford and Norwalk. Last year, 1,400 apartments were brought to market.
Vacancy up 60 bps	The vacancy rate inches up 60 basis points to 5.2 percent as elevated construction along the Metro North weighs on occupancy. Last year, vacancy increased 110 basis points.
Rent up 1.2%	Rising competition in lease-up strains growth in the average effective rent, rising 1.2 percent to $1,655 per month. The average effective rent rose 2.8 percent in 2017.
Investment	Properties built in the 1970s and 1980s will draw yield-seeking buyers from New York City seeking stable cash flows and appreciation through long-term holdings.

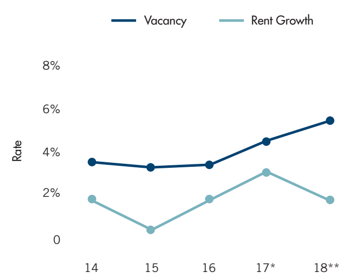
Employment Trends



Quarterly Completions vs. Absorption§



Vacancy and Rents



*Estimate; **Forecast; ❖Through 3Q; §Trailing 12-month average

Sources: CoStar Group, Inc.; MPF Research; Real Capital Analytics

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