

INVESTMENT FORECAST

Retail
New Haven-Fairfield County

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Slowing Construction Stimulates Fundamentals; Buyers Gain Some Clarity on Signs of Recovery

Retail sector benefits from uptick in physical shopping and restrained pipeline. Consumers came out in force during 2021 to spend money saved during the previous year's lockdowns, pushing retail sales volume past 2019 levels. Flourishing in-store retail activity should generate demand for square footage, though the ongoing labor shortage may create headwinds for companies looking to expand operations. Hiring velocity is projected to continue at a rate above the historical metro average, but employment will end this year 13,000 positions under pre-health crisis levels. This year's delivery volume will tick up from the previous span's record low of 77,000 square feet, though 2022's construction pipeline remains conservative when compared to post-2008 norms. Preleasing rates approaching 70 percent on space under construction will further restrain upward pressure on vacancy and mitigate competition for existing inventory. Despite headwinds presented by emerging COVID-19 variants, fundamentals are normalizing, and the market offers upside potential as the current health crisis improves.

Investment activity heightening, aided by improving demand drivers. Robust consumer spending has lifted investor sentiment, with last year's transaction velocity nearly equivalent to 2019 levels, following a pandemic-induced contraction in trading during 2020. Deal flow increased in Fairfield County, highlighted by numerous transactions of smaller single-tenant assets. Sales of nationally-branded gas stations in the \$1 million to \$3 million price range ticked up, as buyers responded to increased travel demand in the wake of loosening lockdown restrictions. In New Haven County, single-tenant properties with triple-net leases typically change hands with yields from the low-5 percent to mid-6 percent range. This region also offers a number of community centers in the sub-\$10 million price tranche. Pharmacy-anchored assets of this type have been observed trading at cap rates in the high-7 percent range.

2022 Market Forecast

- Employment**
up 2.4%

Hiring velocity slows after a 2021 surge, though employers still bolster this year's staff counts with 18,000 new positions.
- Construction**
245,000 sq. ft.

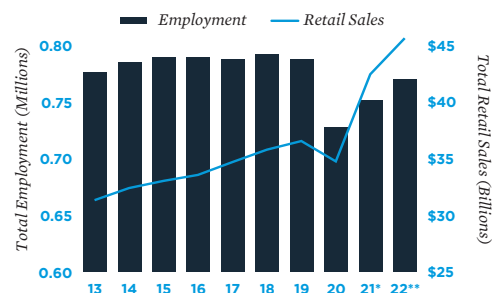
Newly finalized retail space remains below the trailing five-year annual average, with 2022's deliveries comprising less than 0.3 percent of the metro's existing stock.
- Vacancy**
down 20 bps

Limited supply pressure and elevated tenant demand results in a second consecutive year of vacancy compression. Availability reaches 4.5 percent, just above 2019 levels.
- Rent**
up 3.1%

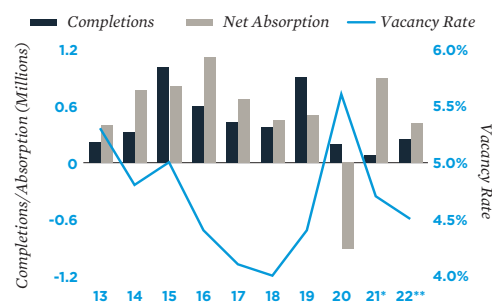
After maintaining consistent positive growth during the health crisis, asking rents continue to see gains in 2022, reaching an average of \$23.50 per square foot.
- Investment**

If subsequent COVID-19 waves prompt some shoppers to avoid physical visits, multi-tenant properties anchored by essential businesses may gain additional upward pricing momentum.

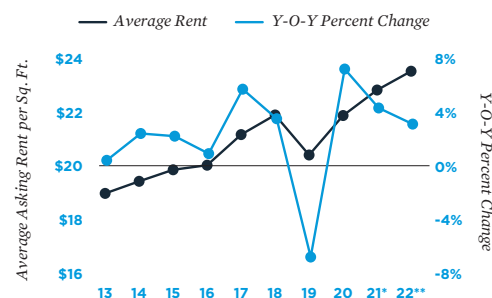
Economic Trends



Supply and Demand



Rent Trends



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

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.