

MARKET REPORT

Retail

New Haven-Fairfield County Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

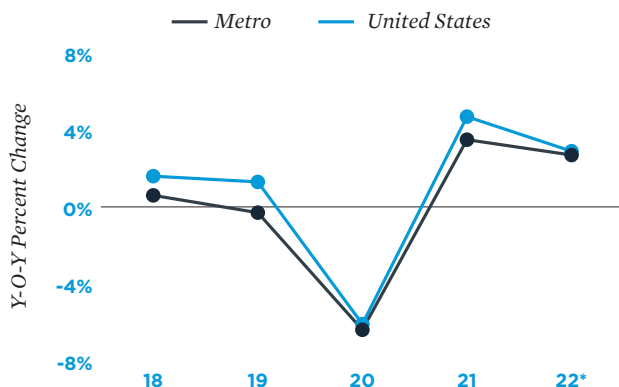
2Q/22

Region Drawing New Retailers; Development Under Historical Norms

Robust consumer spending attracts new businesses. A noteworthy proportion of high-income households translated to a swift retail recovery in the wake of the health crisis, creating an ideal environment for vendors seeking to establish a regional foothold or experiment with new retail concepts. Wegmans has scheduled its first Connecticut operation to open in Norwalk later this year. Amazon has also proposed two of its Fresh storefronts to be built across Fairfield County, in addition to a location underway in Brookfield. In New Haven County, leasing thus far in 2022 has been dominated by national brands. Companies like Old Navy, Planet Fitness and CVS Pharmacy have moved into 10,000-plus-square-foot spaces in the market's eastern half. A slow pace of supply additions here could translate to some competition among larger retailers seeking space in the county.

Developers focus on built-to-suit and mixed-use projects. Builders aiming for less-dense zones are focusing on strip and neighborhood centers. High pre-leasing rates on developments meeting this criteria indicate that builders will not saturate these submarkets with unwarranted supply in the near term. In denser areas, mixed-use projects with retail and residential components are also becoming more common. Among this year's largest additions, several are multi-tenant facilities affixed to Class A apartments. Moving forward, heavily-developed zones in Fairfield County could attract additional properties of this type.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**21,000
JOBS**

will be created

EMPLOYMENT:

Southwestern Connecticut sees a second consecutive year of employment gains as firms expand staffs by 2.1 percent in 2022. Population outflows, however, may begin to weigh on labor force metrics in the coming years.



**350,000
SQ. FT.**

will be completed

CONSTRUCTION:

Following last year's multidecade low of just 45,000 square feet finalized, developers will pick up the pace in 2022. Still, this year's completions total will be 100,000 square feet shy of the trailing 10-year average.



**20
BASIS POINT**

decrease in vacancy

VACANCY:

Increased leasing activity will bring marketwide vacancy down to 4.5 percent, 70 basis points above the previous cyclical low reported in 2019. Strong pre-leasing rates in New Haven and nearby municipalities could support acute declines in vacancy.



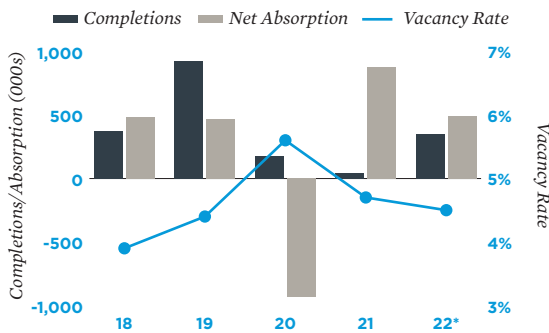
**2.8%
INCREASE**

in asking rent

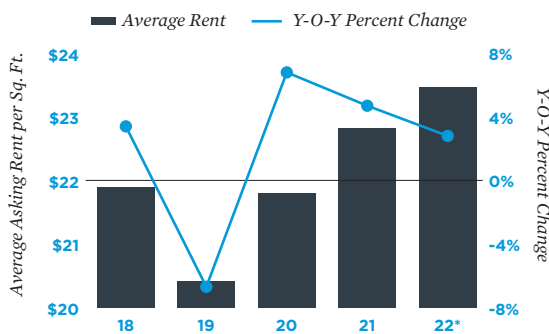
RENT:

As expanding retailers compete for available space, the average asking rent will reach \$23.47 per square foot. Tighter conditions in Fairfield County could translate to stronger upward momentum on rents here.

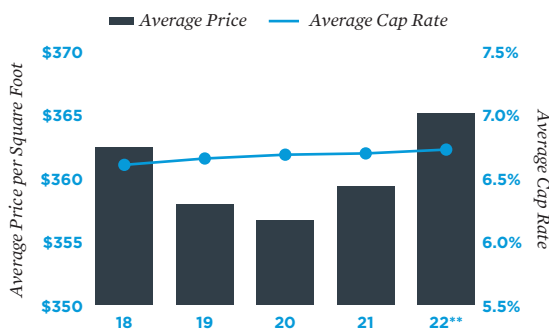
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period

CONSTRUCTION

130,000 sq. ft. completed

- Completions during the past four quarters trailed the previous 12-month total by over 40,000 square feet, with construction exhibiting a marked slowdown when compared to pre-pandemic tallies.
- The majority of square footage added stems from single-tenant projects, as developers abstain from adding speculative multi-tenant stock.

VACANCY

40 basis point decrease in vacancy Y-O-Y

- Marketwide vacancy ended the first quarter at 4.9 percent, 100 basis points above the previous cyclical low reported in March 2019.
- Preferences favored single-tenant buildings, with retailers absorbing 539,000 square feet of this space over the past 12 months. Multi-tenant vacancy ticked up 10 basis points as vendors sought space in less dense zones.

RENT

5.7% increase in the average asking rent Y-O-Y

- Finishing this March at \$22.80 per square foot, the average asking rent has increased 11.6 percent since the end of 2019.
- While asking rents in Fairfield County have maintained year-over-year growth since the second quarter of 2020, New Haven rents spent much of the 12-month period ending March near their previous 2019 peak.

Investment Highlights

- Deal flow broke the triple-digit barrier last year, which was a market first, as investors anticipated a surge in retail spending. Transaction velocity in the first quarter of 2022 equaled the prior three-month record set in 2014, indicating that buyer appetites remain robust into this year.
- Elevated bidding activity reversed a near half-decade trend of valuation losses, pushing the mean price per square foot back up to \$365 during the past yearlong span ending March, an average not observed since 2017.
- At an average of 6.7 percent, New Haven-Fairfield County's mean cap rate is the highest among major New England markets. Last year, a record amount of out-of-state capital entered the metro, primarily from nearby New York, where first-year returns tended to be lower.
- Northeastern investors pursuing passive income sources may seek out single-tenant net-leased properties here, which can trade in the upper-5 percent zone when occupied by high-credit tenants in well-trafficked locales. Similar assets can be observed with yields more than 100 basis points lower in nearby metros.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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