

MARKET REPORT

Multifamily
Fairfield County Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

3Q/22

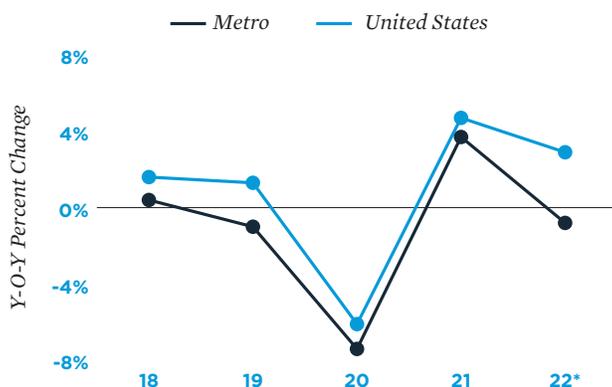
Near-Term Headwinds Present Challenges; Long-Run Outlook Remains Favorable

Nearby demand drivers support positive long-term momentum.

Though a contracting local employment base will contribute to rising vacancy, hiring velocity in New York is expected to continue at a rapid rate through the latter half of 2022. Much of Fairfield County's multifamily units are located along major interstate arteries, and commuters constitute a substantial portion of the renter base, due to the Metro-North Railroad. The growth of hybrid work culture may provide an additional backstop to rental demand, mitigating rising availability. Employees at Manhattan firms who were previously hesitant to pursue housing options in Fairfield County, due to a longer commute, could find suburban units more appealing when weekly trips to the office are reduced.

Supply gains accelerate as job market wanes. Developers maintain a tight focus on the county's affluent southwest, contributing to record stock expansion this year. However, Danbury, Bridgeport and adjacent municipalities are also observing an increase in sizable developments. The longer-term pipeline in these locales boasts multiple larger developments, with a mean unit count exceeding 200. These complexes could face short-term headwinds as regional employers shed positions, translating to a notable increase in availability this year. Long term, however, the outlook remains favorable, with multifamily demand aided by the rising cost of homeownership. The median cost of a single-family dwelling is projected to reach \$673,000 by year-end, more than \$200,000 above the pre-pandemic figure.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook



**3,000
JOBS**
will be lost

EMPLOYMENT:

Despite solid growth last year, market staffing counts will decline by 0.8 percent in 2022. In addition to softening economic outlooks, the local unemployment rate and the amount of active positions suggest a shrinking labor force.



**1,900
UNITS**
will be completed

CONSTRUCTION:

Builders are on track to finalize a multidecade-high door count in 2022. Multiple additions are set for completion in the Stamford CBD, headlined by the 435-unit rental portion of a mixed-use project.



**100
BASIS POINT**
increase in vacancy

VACANCY:

An increasing pace of development will drive the largest rise in availability in multiple years. Nevertheless, the 4.1 percent vacancy rate projected for the end of this year remains below levels reported during the previous cycle.

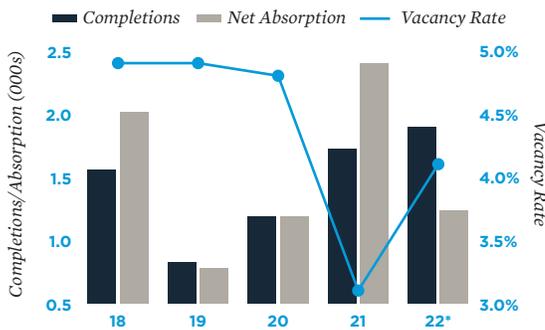


**6.0%
INCREASE**
in effective rent

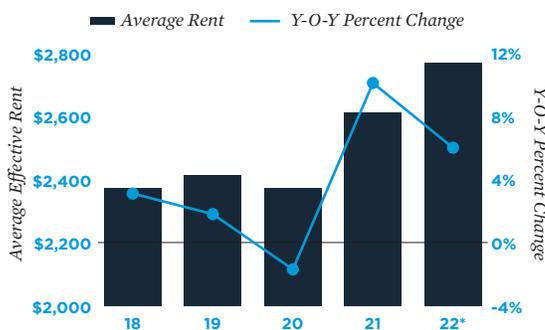
RENT:

As conditions remain tighter than the historical average, rents will command the second-highest annual increase recorded since at least 2000. The average effective rent will close out the year at \$2,770 per month.

Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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2Q 2022 - 12-Month Period

CONSTRUCTION

1,647 units completed

- Completions increased during the 12-month period ended in June from the preceding span, when the pandemic slowed project timelines.
- Developers were most active along the inventory-rich southwest coast of the market. Stock in the Stamford-Norwalk corridor expanded by 3.2 percent, ahead of the 1.6 percent growth in Bridgeport-Danbury.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- The decline in availability this period was driven by 110-basis-point compression in the Class B segment. Entering July, the overall vacancy rate of 3.1 percent is well below cyclical norms.
- Class A vacancy in Bridgeport-Danbury fell sharply to just 2.0 percent at midyear, while the rate in Stamford-Norwalk inched up to 3.9 percent.

RENT

10.1% increase in the average effective rent Y-O-Y

- Year-over-year growth remained in the double digits over the past 12 months, with the average monthly rent closing out June at \$2,718.
- Minimal availability in mid- and low-tier sectors led to notable rent gains this period, with Class B and C rents increasing by 14.8 and 20.4 percent, respectively. Class A rents marked a 1.5 percent advance.

Investment Highlights

- Solid fundamentals brought investors back to the multifamily sector in force last year. Fairfield County set a new benchmark for trading activity occurring during the 12-month span ended in June, with transaction velocity rising 50 percent over the pre-pandemic record. Elevated momentum has continued through the first half of 2022, indicating investor appetites remain notably larger than historical norms. However, mounting capital costs will generate headwinds during the latter half of the year.
- Robust bidding activity translated to continued cap rate compression this period, bringing the average yield among properties traded into the high-5 percent tranche. Falling cap rates may draw some yield-focused institutions to the market's eastern flank, where returns can be slightly higher.
- Positive buyer sentiment translated to continued pricing gains this period. The average price per unit recorded during the trailing year was \$239,000, an increase exceeding 6 percent from the previous yearlong span, and the largest 12-month gain in this metric since 2018.
- New 200-plus unit developments in the pipeline in Danbury, Bridgeport and adjacent municipalities could present opportunities for institutions.

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; RealPage, Inc.