

MARKET REPORT

Multifamily
New Haven Metro Area

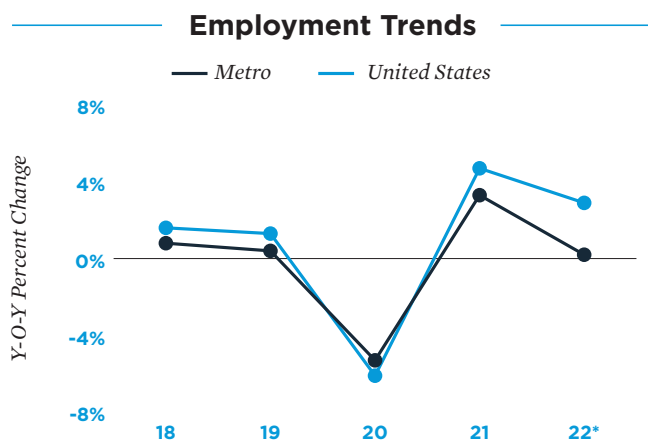
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3Q/22

Builders Ramp Up Deliveries Near the Coast; Regionally High Yields Draw Investment

Developers shift into high gear along coastal zones. Southern New Haven County is on track to mark a historic construction year, with completion totals in the second quarter of 2022 alone exceeding the trailing five-year average. While a number of growing Yale-linked biotechnology and medical employers should support renter demand for these additions, the sudden acceleration in development will translate into an acute increase in availability during the second half. Beyond 2022, construction activity should exceed historical norms for the next two years, though development may ease in the long term. If Southwestern Connecticut continues to experience declines in the 20- to 34-year-old cohort — many of whom are relocating to other areas due to a high local cost-of-living — availability may return closer to pre-pandemic norms.

Sparse inland pipeline generates tight conditions. In the market's northern areas, developers have been much less active. In the first half of 2022, removals outpaced completions in the Waterbury-Meriden-Hamden submarket. Inventory here contracted by 0.5 percent on an annual basis entering July. A limited number of projects in the submarket's active pipeline indicates that stock expansion will continue at a languid pace until at least 2024. While rent growth is beginning to ease to more sustainable levels here, tight vacancy in the Class B and C sectors should push the average effective rent ahead of the pre-pandemic rate of advance.



* Forecast

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

Multifamily 2022 Outlook



**750
JOBS**

will be created

EMPLOYMENT:

Employment growth remained solid in the first quarter of 2022, though job losses in subsequent months suggest some labor demand attrition. Nevertheless, New Haven County's employment base is expected to expand by 0.2 percent this year.



**700
UNITS**

will be completed

CONSTRUCTION:

Builders are on pace to open a multidecade record number of new units this year. In the first half of 2022 alone, finalizations eclipsed all previous annual totals, outside of 2019. Development is concentrated predominantly on 100-plus unit complexes.



**60
BASIS POINT**

increase in vacancy

VACANCY:

An acute supply injection will drive overall vacancy to 2.6 percent by the end of the year. Vacancy decompression will be more significant among upper-tier complexes, due to the addition of new stock.



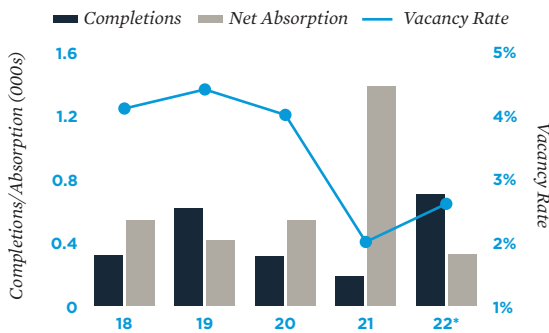
**8.1%
INCREASE**

in effective rent

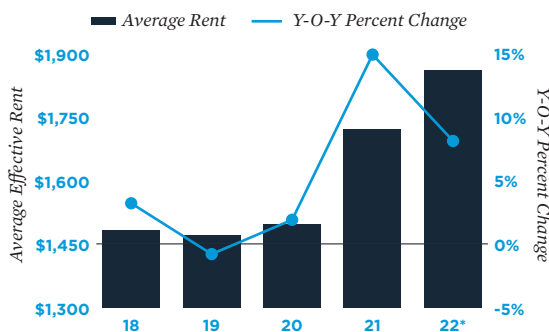
RENT:

While vacancy is increasing, availability still remains well below previous cyclical norms, supporting growth in the average effective rent to \$1,860 per month. Nevertheless, this year's growth is easing from 2021's double-digit percentage gain.

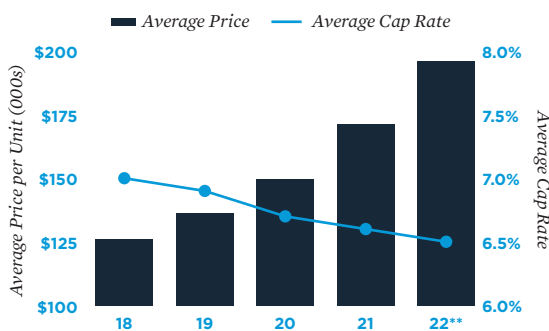
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

IPA Multifamily
John Sebree

Senior Vice President, Director
Tel: (312) 327-5400 | jsebree@ipausa.com

IPA Multifamily Research
Greg Willett

First Vice President
Tel: (972) 755-5200 | gwillett@ipausa.com

Price: \$250

2Q 2022 - 12-Month Period

CONSTRUCTION 705 units completed

- Finalizations dramatically accelerated from the previous 12-month span ended in June, during which less than 150 units were completed.
- In line with market norms, developers focused on the New Haven CBD and close-in suburbs this period. Roughly 10 percent of doors came online in Waterbury-Meriden-Hamden, though removals eclipsed completions.

VACANCY 70 basis point decrease in vacancy Y-O-Y

- Surging rental demand brought availability down to record lows this period, but a 40-basis-point increase in the second quarter indicates that stock growth is outpacing demand. Still, vacancy entered July at 2.1 percent.
- Class A vacancy plunged by 250 basis points to 2.7 percent, while the Class B rate inched up 10 basis points to 2.2 percent at midyear.

RENT 15.0% increase in the average effective rent Y-O-Y

- Tight conditions translated to double-digit annual percentage gains for the past four quarters, bringing the average rent to \$1,833 per month.
- Despite lower vacancy to the north, rents in the market's coastal portions advanced at a faster pace. New Haven proper rents advanced 17.7 percent during this span, bringing the effective rent here to \$1,991 per month.

Investment Highlights

- Buyer activity held steady during the 12-month period ended in June, with the amount of trades comparable to more active pre-pandemic years. Transaction velocity nearly doubled during the first half of 2022 when compared to the previous six months, indicating investor appetites could be strengthening. However, mounting capital costs will create hurdles to deal flow during this year's latter half.
- New Haven County reported a mean cap rate of 6.5 percent during this period, a 20-basis-point compression from the preceding 12-month average. The market boasts a significant yield advantage over other major Northeastern metros, and is the only one recording an average cap rate above 6 percent. As nearby markets observe notable yield compression, institutions seeking regionally elevated returns may increasingly seek out opportunities here.
- Sub-3 percent Class A and Class B vacancy rates create a diverse set of attractive investment opportunities for institutional investors in New Haven County. While availability has declined faster in the luxury rental segment in recent quarters, rent growth has been stronger in the Class B tier. The Waterbury-Meriden-Hamden submarket, in particular, saw the average mid-tier effective rent surge nearly 13 percent during the past year.

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.