

MARKET REPORT

Retail

New Haven-Fairfield County Metro Area

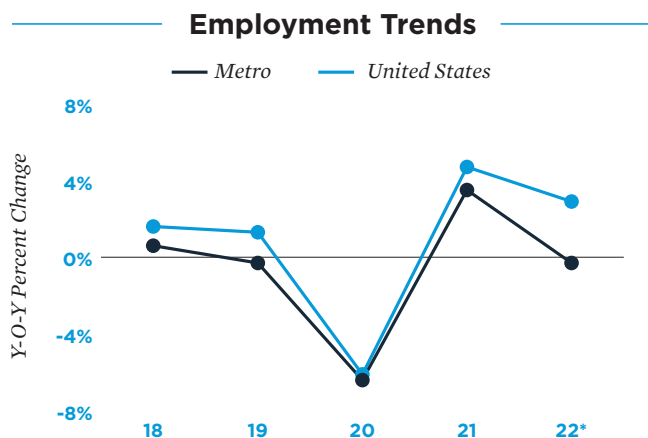
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3Q/22

Development Trends a Boon for Existing Retail as Headwinds Appear on the Horizon

Rising prices compound cost-of-living concerns. As inflation year-over-year remains at multidecade highs, home price appreciation has coaxed 20- to 34-year-olds to leave southwestern Connecticut for lower-cost markets, accelerating a trend that became increasingly evident during the pandemic. Relocations by this cohort will slow population growth, which is expected to ease demand for goods and services in the latter half of the year. Additionally, softening economic outlooks have prompted some of the market's employers to shed positions, further impacting consumer spending in the near term. Despite these retail headwinds, Fairfield and New Haven counties are positioned to handle a potential economic downturn. Both locales are home to a steadily growing 65-plus demographic and a median household income that is more than two-and-a-half times the national equivalent.

Upcoming supply additions are accounted. Though vacancy is expected to increase this year as some retailers weigh space needs, supply growth will have a negligible impact on availability. More than 90 percent of the market's active pipeline was pre-leased as of August, with tenants committed to almost all space underway in New Haven County. In Fairfield County, developers are targeting highly-trafficked corridors in Danbury and the coastal south, focusing on mid-sized shopping centers. Moving east, deliveries are mostly build-to-suit properties for national brands, with a 19,000-square-foot supermarket highlighting the list of upcoming completions.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**2,250
JOBS**
will be lost

EMPLOYMENT:

Employment gains were robust early on in 2022. However, job losses in subsequent months suggest population attrition is weighing on the local worker base. By year-end, a 0.4 percent annual labor market contraction is expected.



**350,000
SQ. FT.**
will be completed

CONSTRUCTION:

Annual supply additions will rise to a three-year high in the wake of last year's record low, when just 45,000 square feet of space was delivered. Completions will expand overall supply by 0.4 percent.



**20
BASIS POINT**
increase in vacancy

VACANCY:

After a net of nearly 850,000 square feet was absorbed in 2021, marking a five-year high in this metric, tempering demand for retail space will result in a slight bump in vacancy. Availability will end the year at 4.8 percent.

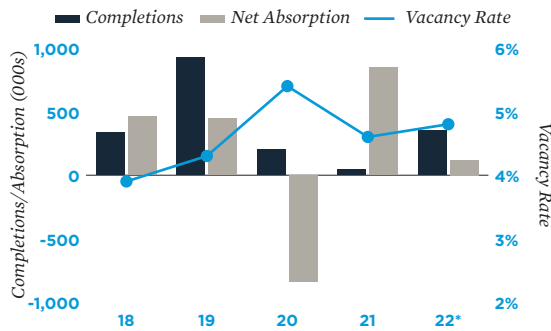


**3.5%
INCREASE**
in asking rent

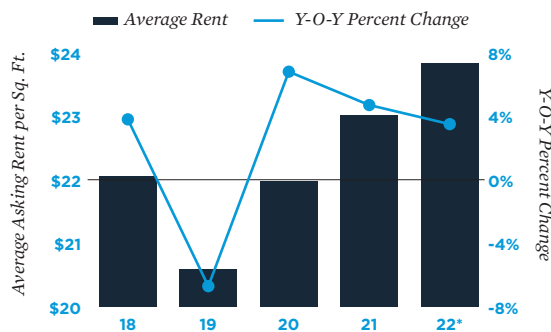
RENT:

Though some retailers are returning space back to the market, availability holds below 5 percent. This, along with moderate supply additions, limit options for expanding vendors, allowing the mean asking rent to close out 2022 at \$23.83 per square foot.

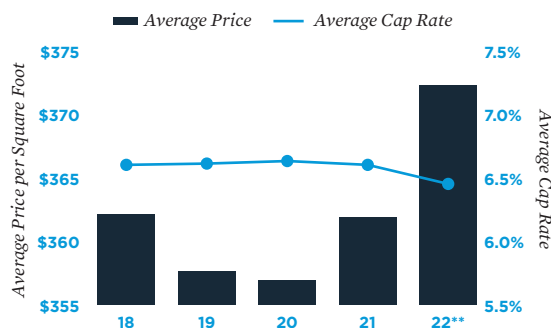
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

162,000 sq. ft. completed

- Modest development over the 12-month period ended in June stems from a lull in completions during the 2021 calendar year. During the fourth quarter of last year, 4,000 square feet of space came onto the market.
- Multi-tenant deliveries were limited over the trailing year ended in June, with less than 40,000 square feet finalizing during the first half of 2022.



VACANCY

40 basis point decrease in vacancy Y-O-Y

- Availability has seen consistent year-over-year declines during the trailing year, entering July at 4.7 percent.
- Multi-tenant vacancy has remained in the mid- to upper-5 percent zone since early 2021. Since that March, single-tenant vacancy has declined 70 basis points to 4.5 percent.



RENT

6.3% increase in the average asking rent Y-O-Y

- Net absorption exceeding 500,000 square feet during the latter half of 2022 allowed rents to command notable increases this period. Entering July, the average asking rent sat at a high of \$23.57 per square foot.
- Single-tenant properties led with a 7.0 percent advance in asking rents during this span, bringing the segment's average to \$24.84 per square foot.

Investment Highlights

- Investors conducted a record number of trades during the 12-month span ended in June, with sales during this period outpacing the pre-pandemic high by roughly 50 percent. Buyer appetites have shown little sign of slowing down thus far in 2022. The first quarter marked record transaction velocity for any three-month period. However, rising interest rates and mounting economic concerns will create new hurdles for deal flow during the latter half of this year.
- After the first pricing increase in the multi-tenant segment since 2016 was observed last year, returning buyer enthusiasm has continued to generate gains. Of the sales occurring during the trailing year ended in June, the average price per square foot increased 3 percent from the previous period to \$284. Still, this figure trails the high registered during the 2015 calendar year by roughly 6 percent.
- Buyers searching for single-tenant properties that are net leased to national brands are acquiring fast food establishments and service stations, most of which are trading for less than \$5 million. Drug stores with high credit tenants are also coveted, with these assets often commanding in excess of \$10 million.

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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