MARKET REPORT

Multifamily

Fairfield County Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

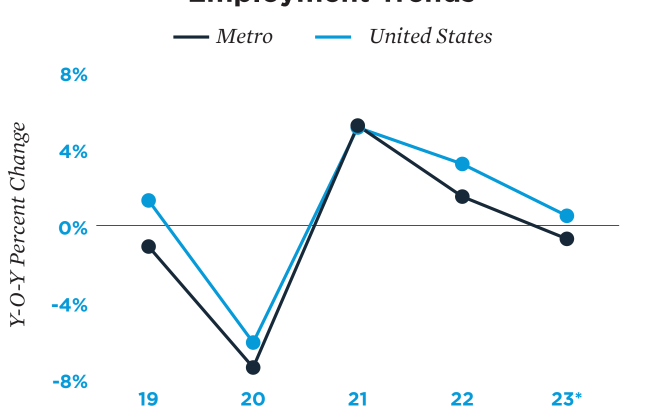
2Q/23

Softer Local Job Market Counterweighted by Growing Class of Hybrid Workers

Diversified demand drivers aid Fairfield County apartments. Stamford and Norwalk host the county's highest concentration of employers, forming a solid backbone of housing demand. Proximity to New York City is an undoubted factor in this concentration, offering office space adjacent to the East Coast commercial hub at a fraction of the cost. This accessibility also supports bedroom communities in the submarket. While job creation in Fairfield County will be stagnant this year, hiring in New York may bring more hybrid workers to the area. Over time, some of these employees could transfer to local offices or employers. These dynamics will help stabilize multifamily operations in the short-term, while also building a foundation for longer-run residential growth.

Post-health crisis projects double down on established nodes. Since 2020, developers have been increasingly targeting locations with established residential communities that are also favorable to commuters with Manhattan-based jobs. Nearly 1,250 units are expected to come online in Downtown Stamford alone this year. In addition to being a live-work-play district of its own, the area is within walking distance of one of the largest transit nodes on the Metro North rail line. Projects in downtown Greenwich and Norwalk are similarly advantaged. Developers are also expected to maintain a rapid pace in the near future. The 2,100 units slated for completion this year constitute less than half of all active projects, indicating that the current pace of supply additions will last until at least 2025.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

3,000 JOBS *will be lost*

EMPLOYMENT:

Macroeconomic challenges and population attrition will contribute to a 0.7 percent reduction in the employment base in 2023. One-third of these losses will stem from traditional office-using employers, due in part to headwinds in the financial sector.

2,100 UNITS *will be completed*

CONSTRUCTION:

After bringing a near-record 2,070 units to market in 2022, builders are expected to break the 2,000 door per annum threshold again for a new all-time high in 2023. The bulk of completions are slated for Stamford and Norwalk.

140 BASIS POINT *increase in vacancy*

VACANCY:

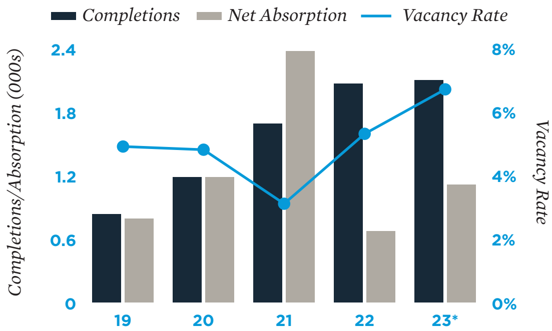
Robust new supply arriving as some renters delay moving out on their own, consolidate households or relocate to nearby metros will bring vacancy to 6.7 percent — the highest year-end rate seen in the metro since at least 2006.

1.1% DECREASE *in effective rent*

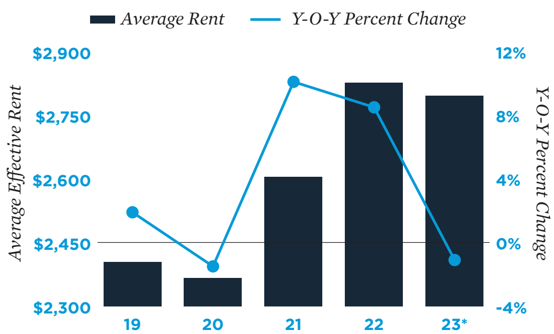
RENT:

High availability translates to a slight reversal, after two years of substantial rent advances. At $2,796 per month, however, this year's average effective rent will remain 16.3 percent ahead of the year-end 2019 equivalent.

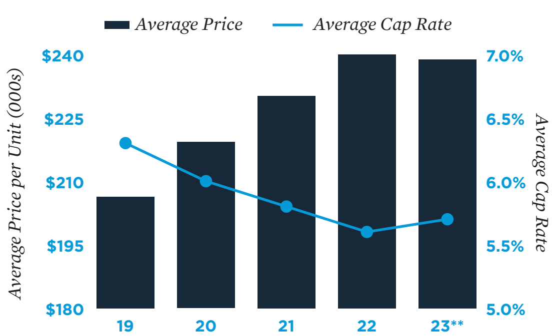
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

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

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Price: $250

1Q 2023 - 12-Month Period

CONSTRUCTION

1,991 units completed

- Developers completed 800 units in the fourth quarter of 2022 alone, achieving a record for doors added within a three-month span.
- Though only one-fifth of all units finalized during the 12-month period ended in March came online in Bridgeport-Danbury, the rate of stock expansion here was the fastest recorded since 2017.

VACANCY

230 basis point increase in vacancy Y-O-Y

- Availability entered April at 5.6 percent, representing the most rapid 12-month vacancy advance recorded in the market since at least 2007.
- Vacancy among Class A rentals rose by less than the Class B and C tiers over the past four quarters. At 5.9 percent, availability among luxury units in March was 10 basis points below that of Class C apartments.

RENT

6.9% increase in the average effective rent Y-O-Y

- Rents shed positive momentum in the early part of 2023, with a new county average effective rate of $2,803 per month in March.
- The Bridgeport-Danbury corridor led in rent increases, with a 12.3 percent advance bringing the average effective rent to $2,322 per month. Rents in Stamford-Norwalk still lead the market, however, at $2,979 per month.

Investment Highlights

- Overall deal flow has slowed significantly since mid-last year as interest rates have risen. As of early 2023, smaller Class C properties are the principle segment changing hands. Buyers are largely pursuing assets in the sub-$5 million range. Some buyers are bundling these assets in portfolio deals for higher yields, an increasingly common practice since the onset of the health crisis.
- Outside of a handful of multi-property transactions, institutions have largely paused activity in the market in recent months due to mounting capital costs. Investment firms that have engaged in the market over the past year are predominantly based in Connecticut, utilizing local knowledge to pursue options in areas like Downtown Norwalk and Lower Stratford.
- Investors seeking above-average yields will likely look to Fairfield County's eastern half, near the border with New Haven. Assets in Bridgeport can be seen trading in the mid- to high-6 percent zone, roughly a percent higher than the metro's overall average. Higher-yield deals may become more attractive to buyers in response to a tightening lending environment.