MARKET FORECAST

RETAIL

New Haven and Fairfield Counties

IPA INSTITUTIONAL PROPERTY ADVISORS

Q2/19

High Incomes Bring in New Luxury Retailers and Sustain Investor Demand

Retail development moderates outside single large-scale delivery, avoiding shock to vacancy. The southern Connecticut region has demonstrated relatively stable retail performance over the past several years. While modest rates of population and job growth keep retail spending from making massive gains, the area is home to many high-income earning individuals who drive strong consumption. That spending has helped sustain retailer demand, with vacancy staying within the low- to mid-4 percent band for more than two years. Vacancy will remain in the mid-4 percent area in 2019 despite the largest construction pipeline in nearly half a decade. The SoNo Collection, the new regional mall that is fully leased prior to opening, is located in Southern Norwalk near several recent multifamily developments. Any potential impact to vacancy may be further mitigated by the possibility that the space will open in phases that extend into early 2020. Excluding the SoNo project, total arrivals in Fairfield and New Haven counties are just over 300,000 square feet, in line with the past two years. As with the mall, a portion of this space is already claimed, which may weigh on asking rents as some tenants relocate to more productive locations, leaving older space vacant.

Value-add options remain as investors pursue deals in high-traffic corridors and well-off suburbs. New Haven and Fairfield counties present opportunities for private and institutional investors to acquire both high-end and value-add retail assets at lower entry costs than some other East Coast markets. While the bulk of trades take place along the I-95/Route 1 corridor, properties regularly change hands farther inland in towns such as Danbury and Waterbury. Sales prices tend to be higher in Fairfield County compared with New Haven County, driven by competition for premium assets near pockets of recent residential and office development. The median household income in the suburbs surrounding Greenwich, Stamford and Norwalk can exceed $140,000 per year, supporting consumer spending at the nearby shops and shopping centers. Here, many investors pursue value-add opportunities, specifically those with some type of access to the rush-hour traffic flow near these affluent suburbs. Older properties in suburban Fairfield County changed hands for under $200 per square foot with first-year yields above 7 percent. This same activity also takes place in New Haven County, where transaction velocity has improved over the past 12 months in Hamden and Naugatuck. Properties in the popular residential suburb of Hamden exchanged ownership at cap rates around 6 percent, while in less-central Naugatuck, returns can extend into the 9 percent zone for shopping centers with locally known tenants.

2019 Retail Forecast

0.5%
increase
in total employment

EMPLOYMENT:
Following a period of employment contraction in 2016-2017, job growth for this year will continue at a positive pace similar to that of 2018 as area employers expand payrolls by 4,000 positions.

890,000
square feet
will be completed

CONSTRUCTION:
Approximately 336,000 square feet is underway across the metro, not counting the 616,000-square-foot SoNo mall, which is expected to open at the end of the year.

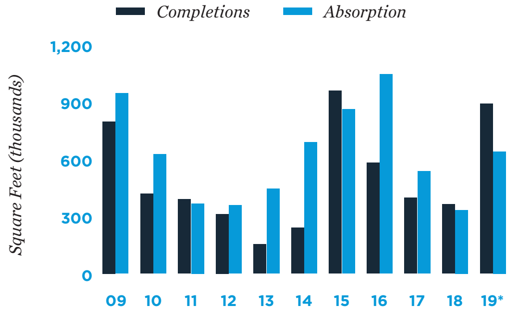
20
basis point
increase in vacancy

VACANCY:
Although the bulk of this year's deliveries are concentrated in one location, the shifting retail landscape will mildly weigh on vacancy, raising the marketwide rate to 4.5 percent.

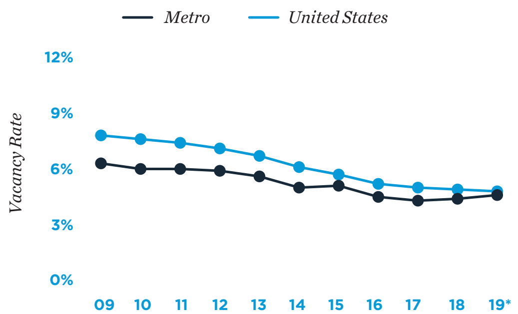
1.9%
increase
in asking rents

RENTS:
The average asking rent will build upon a 2.0 percent gain from last year to advance to $23.06 per square foot in 2019. Rent growth is stronger among multi-tenant properties, where rates are below the level of four years earlier.

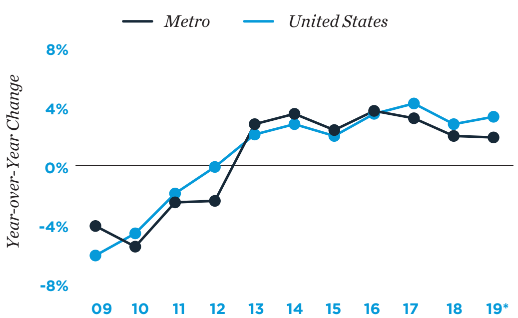
Retail Completions



Vacancy Rate Trends



Asking Rent Trends



* *Forecast*

Employment

- Employers created 2,200 jobs over the 12-month period ended in March. As a sign of the ongoing commercial and residential development in the market, the number of employees in the construction sector expanded by 8.3 percent.
- Some business and professional service roles as well as positions in trade, transportation and utilities vacated the market, curbing overall gains.

Outlook: The proximity to major metropolitan areas and one of the nation's premier universities continues to appeal to companies seeking talented labor at a lower cost, sustaining mild employment growth in 2019 with the creation of 4,000 jobs.

Construction

- The pace of development stays largely unchanged for the second annual period as about 352,200 square feet of space came online in the 12 months before April. About 289,000 square feet of that space is in Fairfield County.
- Fairfield County construction activity was led by the delivery of a 143,000-square-foot Home Depot in Stamford and a 44,000-square-foot multi-tenant building in Shelton. A two-building mixed-use storefront totaling 60,000 square feet also came to Brookfield.

Outlook: The construction pipeline will see renewed growth in 2019, led by the SoNo Collection luxury mall in southern Norwalk.

Vacancy and Rents

- The market's vacancy rate dipped 10 basis points to 4.2 percent in March following a 30-basis-point decline a year ago, as net absorption just surpassed a modestly smaller construction pipeline.
- Over the past four quarters, rent growth has been more pronounced among multi-tenant space as the average asking rate advanced 1.7 percent compared with the 0.4 percent gain reported for single-tenant properties.

Outlook: While 2019 completions reach their highest total in three years, much of that figure comes from one delivery, limiting the upward impact on vacancy and enabling asking rents to advance at a similar pace to last year.

Sales Trends

- The market's average multi-tenant cap rate stayed in the low-7 percent zone for the third year in a row, while the same measure for single-tenant assets dipped 20 basis points over the past 12 months to fall into the high-5 percent band.
- Stable buyer demand reflected in a consistent level of transaction velocity contributed to rising sale prices, particularly for single-tenant properties. The average sale price improved to roughly $409 per square foot.

Outlook: A lack of upward pressure to interest rates and cap rates that are holding steady in the mid-6 percent zone on average should encourage transaction activity as some owners test the market amid continued price appreciation.

National Retail Group

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau