MARKET REPORT

MULTIFAMILY

New Haven/Fairfield County

IPA INSTITUTIONAL PROPERTY ADVISORS

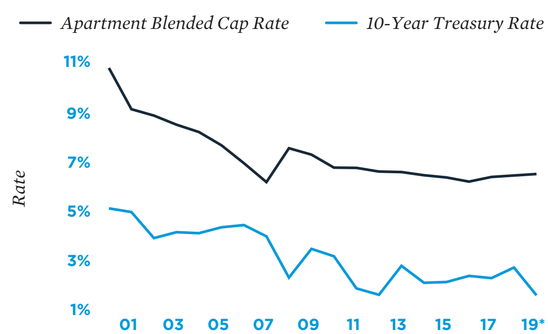
Q4/19

Apartment Demand Readily Surpasses Contracting Construction Pipeline, Supporting Minimal Vacancy

Rental demand exceeds supply growth, dropping vacancy to multiyear low. Job creation by local organizations and migration from nearby New York continue to support household formation in the New Haven-Fairfield County region. The high cost of homeownership prompts many residents to rent, emphasizing the need for available units. Over the past three years, apartment demand has exceeded supply additions by more than 2,000 rentals, contributing to a 240-basis-point vacancy decline over that span to 3.6 percent in September. Vacancy has not dropped below 4 percent since 2010, and tight operations underpin rent growth. The average monthly payment is advancing the fastest in the Bridgeport/Danbury and Stamford/Norwalk submarkets, especially among Class A units.

Deliveries come at a modest pace to Norwalk, New Haven and Milford. The rate of development is moderating across the region, especially in the Stamford/Norwalk submarket where the largest share of deliveries have been made over the past decade. Openings here are headlined by the Curb at North Seven in Norwalk, where 235 of the planned 700 total apartments will come online by year end. Farther north in the city of New Haven, the construction pipeline is expanding by a small margin, with the 269-unit Audubon Square I scheduled to be completed this year. Between those two cities, in Milford, the Star Deluxe will open by the end of 2019 with 168 rentals. As the market has lagged the U.S. in inventory growth over the past five years, these new arrivals will help meet the growing demand for contemporary multifamily living space, which includes numerous amenities.

Local Apartment Yield Trends



** Cap rate trailing 12-month average through 3Q; Treasury rate as of Sept. 30*

Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2019 Outlook

1,300 UNITS
will be completed

CONSTRUCTION:

The delivery schedule will decrease by approximately 50 units compared with last year as nearly 700 units open in New Haven County and about 600 rentals come online in Fairfield County.

60 BASIS POINT
decrease in vacancy

VACANCY:

Vacancy will fall by the same margin as in 2018 to 3.9 percent this year. Availability will be tighter in New Haven County but is falling more in Fairfield County.

2.4% INCREASE
in effective rents

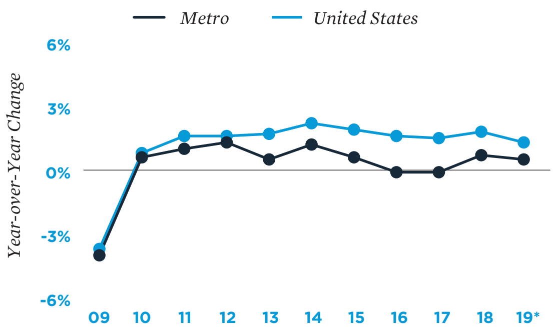
RENT:

The average effective rent will climb to $1,820 per month in 2019 after a 4.3 percent gain last year. Slowing rent growth in New Haven is a contributing factor.

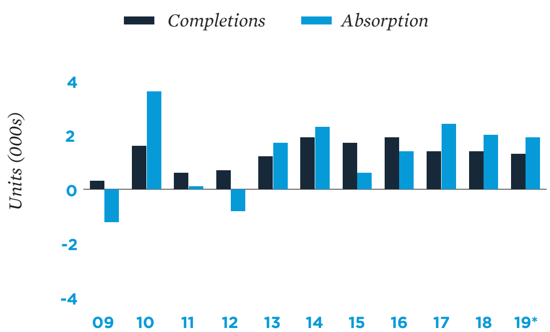
Investment Trends

- Downtown Stamford and the city of New Haven continue to offer opportunities for investors with more than $20 million in available capital. Properties built after 1990 in these and nearby locales traded hands with sales prices that exceeded $200,000 per unit and cap rates in the 5 percent zone.
- Trading volume has risen substantially in the Bridgeport area over the past five years, with about 23 percent of the transactions recorded in the past four quarters taking place in the submarket. Most assets that changed hands were Class C properties built prior to 1950 with fewer than 20 units at an average sale price of $83,000 per unit and first-year returns in the low-7 to mid-8 percent range.
- Out-of-state buyers, including those from New York City, continue to play an active role in the market. The average sale price is more than $100,000 per unit lower and the average cap rate is 100-200 basis points higher, presenting opportunities for yield-seeking investors.

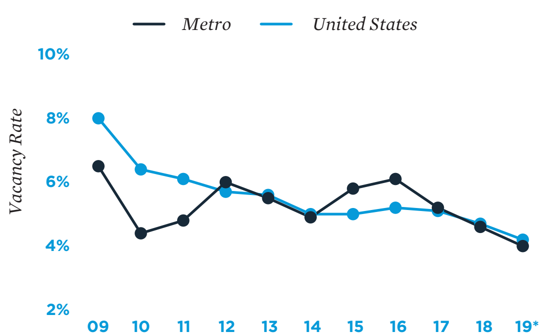
Employment Trends



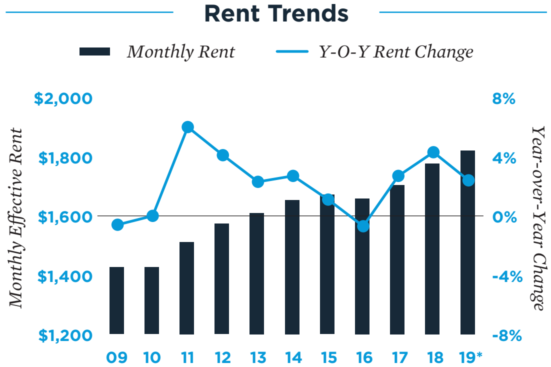
Completions and Absorption



Vacancy Rate Trends



Rent Trends



** Forecast*

Source: CoStar Group, Inc.

3Q19 – 12-Month Period

EMPLOYMENT

0.5% increase in total employment Y-O-Y

- Employers across New Haven and Fairfield counties created a combined 3,645 jobs over the 12-month period ended in September, above the 0.2 percent growth rate from a year prior.
- Hiring was led by the region's well-established education and health services sector with the addition of 5,000 personnel, offsetting contractions in other industries, including manufacturing and trade, transportation and utilities.

CONSTRUCTION

870 units completed Y-O-Y

- The region's construction pipeline has contracted over the past four quarters as about 400 fewer apartments were completed in that span than during the prior yearlong period.
- Properties opened across the region, with the largest number of units coming online in the city of New Haven, followed by Stamford and Norwalk. Between the two counties, there are more than 3,500 units under construction, with deliveries scheduled through 2021.

VACANCY

60 basis point decrease in vacancy Y-O-Y

- The net absorption of 1,400 units over the past 12 months exceeded supply additions, leading to a decline in the market's vacancy rate to 3.6 percent at the end of the third quarter.
- Availability fell across all submarkets, led by a 90-basis-point drop to 3.8 percent in Bridgeport/Danbury. Operations are tightest in the city of New Haven at 3.2 percent, 80 basis points below where the metric was a year prior.

RENT

1.3% increase in the average effective rent Y-O-Y

- Rent growth moderated over the 12-month period ended in September to an average effective rate of $1,814 per month. Monthly payments advanced by more than 3.0 percent in Fairfield County, while Class A and C rates in New Haven also improved by more than 1.5 percent.
- Rent growth was strongest among Fairfield County Class A units, up 3.2 percent to $2,859 per month. The most affordable rents are still found in New Haven Class C rentals at a monthly average of $1,132.

Demographic Highlights

3Q19 Median Household Income

Metro **$84,644**

U.S. Median **$65,205**

3Q19 Affordability Gap

Renting is **$484** *Per Month Lower*

*Average Effective Rent vs. Mortgage Payment**

Multifamily (5+ Units) Permits*

2,123 *1H 2019*

39% *Compared with 1H 2016-2018*

3Q19 Median Home Price

Metro **$351,098**

U.S. Median **$272,227**

Five-Year Household Growth**

11,700 *or* **0.3%** *Annual Growth*

U.S. **1.0%** *Annual Growth*

Single-Family Permits*

1,085 *1H 2019*

3% *Compared with 1H 2016-2018*

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2019-2024 * Annualized Rate*

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q19

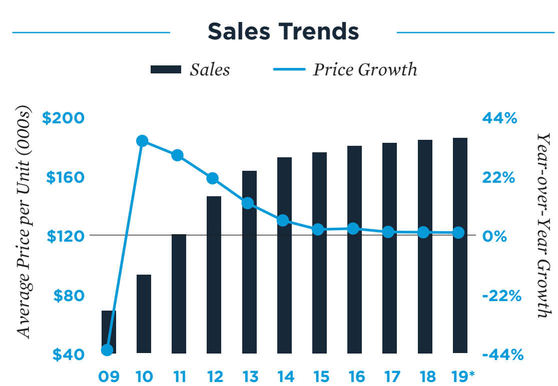
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y % Change
New Haven	3.2%	-80	$1,565	-1.6%
Waterbury/Meriden/Hamden	3.6%	-20	$1,349	1.4%
Stamford/Norwalk	3.7%	-70	$2,566	2.1%
Bridgeport/Danbury	3.8%	-90	$1,793	2.9%
Overall Metro	**3.6%**	**-60**	**$1,814**	**1.3%**

SALES TRENDS

New York Rent Laws Poised to Drive Added Trading Velocity in Market With Rising Sale Prices

- Transaction velocity moderated over the past four quarters, nearing levels last reported in 2016. The average sale price nevertheless increased slightly to $185,500 per unit.
- The region's blended average cap rate remained in the mid-6 percent zone for the fourth consecutive year. First-year returns range from high-4 percent for Class A properties to the mid-5 to 6 percent zone for Class B buildings and above 7 percent for certain Class C facilities.

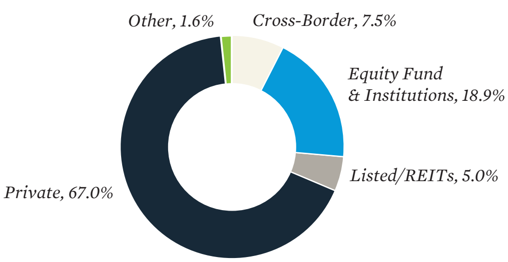
Outlook: New regulations governing rent-stabilized apartments in New York are prompting more investors to consider options in New Haven and Fairfield counties, where yields are higher and rents are unrestricted.



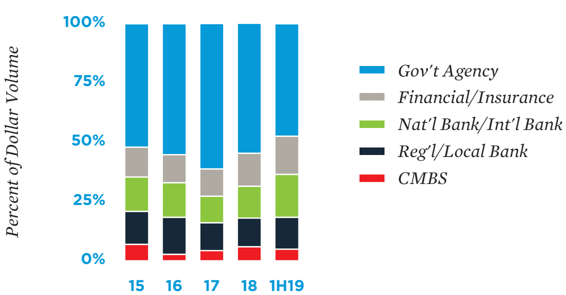
** Trailing 12 months through 3Q19*

Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

1H19 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Includes sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

National Multi Housing Group

Jeffery J. Daniels
Senior Vice President, National Director | IPA Multifamily
Tel: (212) 430-6127 | jdaniels@ipausa.com

Prepared and edited by
Cody Young
Research Analyst | Research Services

For information on national apartment trends, contact:
John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

www.IPAusa.com
Institutional Property Advisors (IPA) and Marcus & Millichap are service marks of Marcus & Millichap Real Estate Investment Services, Inc.
© 2019 Marcus & Millichap. All rights reserved.

CAPITAL MARKETS

By DAVID G. SHILLINGTON, President, Marcus & Millichap Capital Corporation

- **Fed cuts rate again, while balancing assortment of factors.** The Federal Reserve cut the overnight rate by 25 basis points at the end of October, the third reduction in less than 100 days in an attempt to lengthen the economic runway. Muted inflationary pressure and continued trade negotiations have boosted the probability for an additional rate cut in December as it is anticipated by some domestic and foreign markets. However, at the end of October, the U.S. and China were in talks for finalizing the first phase of a trade deal, potentially erasing the need for another rate reduction if the preliminary agreement quickly comes to fruition. This, along with positive economic indicators like strong wage growth, sustained job creation and a rising 10-year Treasury, will continue to make future decisions difficult for Fed members as they balance the array of forces tugging at both ends of possible outcomes. Global developments including slowing European economies as well as the progression of Brexit and its potential aftermath will also help determine future Fed decisions. Though recession risks remain, the economy's solid foundation has softened it in recent months, signaling continued domestic growth in the near future.
- **Abundant liquidity balances conservative underwriting.** Debt financing for apartment assets remains strong, supported by a variety of lenders. Fannie Mae and Freddie Mac, two mainstay apartment capital sources, were recently given increased lending caps, allowing the two Government Sponsored Enterprises to purchase $100 billion in loans during a yearlong period that started at the beginning of the fourth quarter 2019. A wide range of local, regional and national banks; pension funds; insurance companies and CMBS sources will also remain active. All have responded to the falling interest rate climate by reducing mortgage rates, but lender spreads have widened as the 10-year Treasury rate remains near cycle lows. Given the downward pressure on interest rates, lender caution has risen, particularly for construction loans. Though lending is still available for these types of projects, investors may need to blend mezzanine debt with other capital sources until they prove out their concepts and substantially fill units. For stabilized existing assets in most major markets, financing remains plentiful.

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. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions valued at $1,000,000 and 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.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau