

ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

New Haven-Fairfield Metro Area

Third Quarter 2009

DEALS SLOW, DESPITE SOLID FUNDAMENTALS

With an apartment vacancy rate of less than 5 percent midway through 2009, the New Haven-Fairfield market measures up well against others across the country. To be sure, fundamentals will weaken over the remainder of the year as ongoing employment reductions further soften housing demand. In New Haven County, a rise in job losses in the second quarter could push up near-term vacancy, although projected year-end vacancy of about 4 percent is considered tight. The strength of the market continues to be exemplified by the performance in New Haven County and the resiliency of the metro area's Class B/C sector. Year to date, the lower tiers have posted only a 20 basis point increase in vacancy to 4.5 percent, while asking rents have slid 0.4 percent. In comparison, Class A properties in the market have registered a 140 basis point jump in vacancy to 5.2 percent and a 2.4 percent drop in asking rents. Additional employment cuts will likely result in higher vacancy in the top tier as tenants double up or move down to lower-cost units.

Investment activity thus far in 2009 has been dominated by sales of smaller properties. Although ongoing challenges in the credit markets have slowed transactions for all sizes of apartment complexes, sales of large assets in particular have been stymied by an idle commercial mortgage-backed securities market. Indeed, few large properties have sold in the past six months. Property underwriting, meanwhile, continues to focus on the likelihood of higher near-term vacancy and greater use of concessions to retain and attract tenants. Marketwide concessions will not revert to pre-2009 levels until employment growth stimulates housing demand, possibly sooner in areas of New Haven County where vacancy remains low and supply growth has been minimal. Nonetheless, the prospect of solid long-term asset performance for investors remains intact, especially in areas with stable renter demographics, such as New Haven and Waterbury.

2009 ANNUAL APARTMENT FORECAST



Employment: This year, 24,000 jobs are expected to be lost in New Haven and Fairfield counties, a 3 percent drop. In 2008, 20,400 positions were eliminated. By county, 13,000 jobs are forecast to be cut in Fairfield, while 11,000 positions will be shed in New Haven.



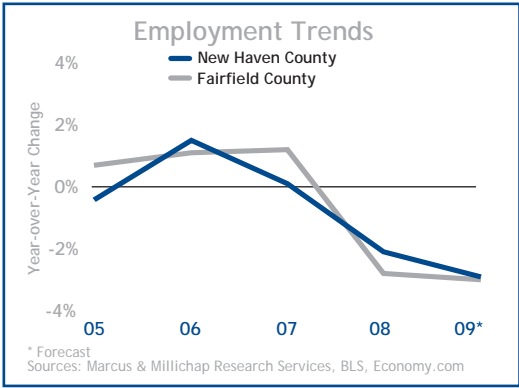
Construction: Developers are expected to complete 281 apartment units in 2009, all of which have already come online. Last year, 511 units were added to stock.



Vacancy: Job losses will nominally erode rental housing demand, pushing up the market-wide vacancy rate 130 basis points this year to 5.4 percent. In 2008, the vacancy rate was unchanged. Vacancy in Fairfield County is projected to climb 170 basis points in 2009 to 6 percent, and a 30 basis point bump to 3.8 percent is expected in New Haven County.



Rents: Asking rents are forecast to fall 2.9 percent to \$1,547 per month this year, after increasing 1.7 percent in 2008. Effective rents are projected to decline 4.9 percent to \$1,462 per month, compared with a 0.7 percent rise in 2008. This year, asking rents are expected to slide 2.3 percent in New Haven and 3.1 percent in Fairfield. Effective rents will drop 2.4 percent and 5.7 percent in New Haven and Fairfield, respectively.

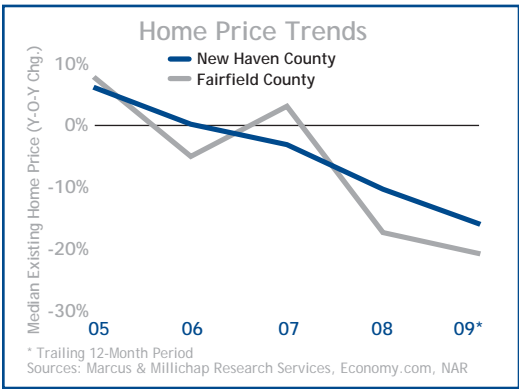


ECONOMY

- ◆ In New Haven and Fairfield counties, employers eliminated 27,000 jobs over the 12 months ending in the second quarter, a 3.3 percent drop. Since the start of this year, 13,100 positions have been shed.
- ◆ Reductions in employment have been slightly more severe in Fairfield County. During the past 12 months, employment in the county has contracted 3.8 percent due to the loss of 16,700 jobs. Cuts appear to be moderating, though, as 7,000 workers were let go in the first half of 2009.
- ◆ In the last year, employment in New Haven County has decreased by 2.7 percent, or 10,300 positions. Recent trends show that layoffs may be accelerating, as 6,100 employees were shed in the first half of this year, including 4,500 jobs in the second quarter.
- ◆ **Outlook:** In 2009, 24,000 jobs are expected to be lost in New Haven and Fairfield counties, a 3 percent drop. Last year, 20,400 positions were trimmed.

HOUSING AND DEMOGRAPHICS

- ◆ Weaker employment contributed to a 2.1 percent drop in the Fairfield County median household income to \$82,075 per year in the 12 months ending in the second quarter. A 1 percent decline to \$60,900 annually was recorded in New Haven County over the same period.
- ◆ Despite the modest decrease, the median household income in Fairfield County remains high, and single-family residences there are still very affordable. The median price of a single-family home in the county fell 21 percent year over year to \$340,700 in the second quarter.
- ◆ The median price of an existing single-family residence in New Haven County has dropped 19 percent over the past 12 months to \$217,200. Still, the median household income is considered more than sufficient to cover the monthly mortgage payments on the median-priced home.
- ◆ **Outlook:** Homes in the market are affordable, yet the prospect of falling or stagnant income levels and a greater aversion to debt will keep home buying well below peak levels recorded a few years ago, sustaining a sizable pool of renters.



CONSTRUCTION

- ◆ A minimal number of apartments have been completed in the market over the past five years, and construction activity continues to slow. Approximately 336 units have been added to rental stock in the last 12 months, compared with 642 units in the preceding year.
- ◆ So far this year, 281 rentals have been put into service. All of the units are in Fairfield County, including 146 apartments at the Glenview House complex in Stamford.
- ◆ Approximately 3,800 units are planned in the counties – 2,000 units in Fairfield and 1,800 apartments in New Haven. Permitting, meanwhile, has slowed 6 percent in the past year to 1,184 units, primarily as a result of a 55 percent drop in New Haven County.
- ◆ **Outlook:** This year, developers will complete 281 units, all of which have already come online. In 2008, 511 units were added to inventory.

VACANCY

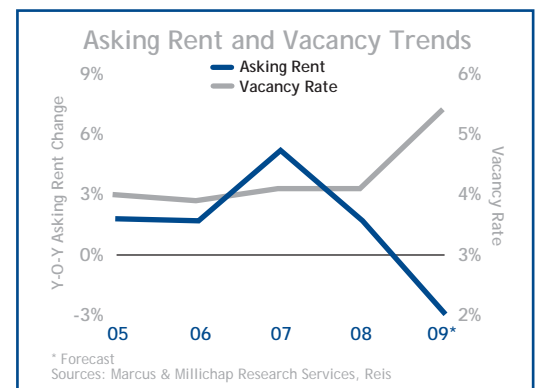
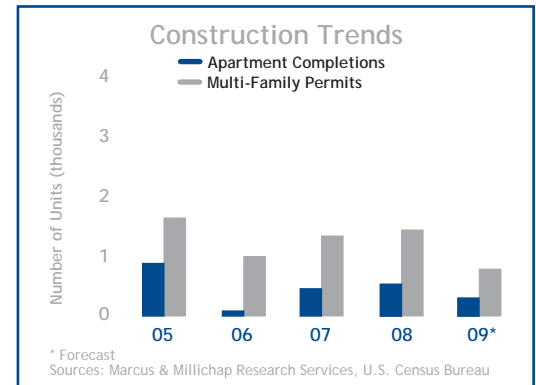
- ◆ Despite the loss of 7,200 jobs in the period, the average vacancy rate in the New Haven-Fairfield market fell 60 basis points in the second quarter to 4.8 percent. Year to date, however, vacancy has climbed 70 basis points, reflecting the effects of the recession on housing demand.
- ◆ Led by a 70 basis point decrease to 6.6 percent in the East Fairfield County submarket, the vacancy rate in Fairfield County fell 50 basis points in the second quarter to 5.5 percent. In the first half of 2009, vacancy climbed 120 basis points.
- ◆ The vacancy rate at Class A properties in New Haven County improved 160 basis points to 2.7 percent in the second quarter, driving a 100 basis point drop in countywide vacancy to 3.2 percent. The current rate is also down 30 basis points from year-end 2008.
- ◆ **Outlook:** Job losses will erode rental housing demand, pushing up the marketwide vacancy rate 130 basis points this year to 5.4 percent.

RENTS

- ◆ The decline in vacancy in the second quarter came at the expense of rents. Asking rents fell 1 percent in the period to \$1,570 per month, while effective rents receded 1.5 percent to \$1,493 per month. Current concessions are equal to 4.9 percent of asking rents, up from 4.5 percent of asking rents in the first quarter.
- ◆ While concessions rose marketwide, a decrease was posted in New Haven County. Asking rents slid 1.1 percent in the second quarter to \$1,082 per month, but effective rents receded only 0.4 percent to \$1,054 per month. As a result, concessions fell to 2.6 percent of asking rents from 3.3 percent of asking rents in the year's initial quarter.
- ◆ Asking rents in Fairfield County decreased 1.1 percent to \$1,788 per month in the second quarter and are down 1.6 percent year to date. Thus far in 2009, effective rents in the county have slipped 3.6 percent to \$1,690 per month, raising concessions from 3.5 percent of asking rents at year-end 2008 to 5.5 percent of asking rents currently.
- ◆ **Outlook:** In 2009, asking rents are forecast to fall 2.9 percent to \$1,547 per month, and effective rents are projected to decrease 4.9 percent to \$1,462 per month.

SALES TRENDS**

- ◆ More stringent lending standards have contributed to a 20 percent drop in transaction velocity over the past 12 months.
- ◆ The median price in transactions completed during the last year was \$103,600 per unit, compared with about \$73,000 per unit in the preceding 12 months. The increase is likely attributable to a greater number of small properties selling at high prices in that time.
- ◆ Class B/C properties currently on the market are listed at cap rates averaging from the high-7 percent range to 9 percent. Pricing for Class A product is unclear due to limited activity.
- ◆ **Outlook:** Fundamentals in the market are expected to soften in the months ahead. Investors will continue to underwrite deals to reflect greater use of concessions, especially in Class A properties.



** Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

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CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ During the first quarter, multi-family mortgage originations were 61 percent below year-earlier levels and 79 percent lower than the late-2006 peak. Though considerable, the reduction in apartment originations remains less significant than declines among other core commercial property types, due largely to the availability of financing through Fannie Mae and Freddie Mac.
- ◆ Portfolio lenders are issuing apartment financing at all-in rates of 6.0 percent to 6.3 percent for three-year loans and up to 6.8 percent to 7.5 percent for a 10-year term. Loan-to-value requirements range from 55 percent to 75 percent.
- ◆ Agency lenders are offering five-year loans at all-in rates of 4.8 percent to 5.0 percent with 10-year mortgages available at rates averaging 5.35 percent and 5.7 percent, respectively. Maximum leverage among agency lenders ranges from 55 percent to 75 percent.
- ◆ Freddie Mac recently completed a \$1 billion securitization of multi-family debt, the first issuance to hit the market since last June. The securities, dubbed "K Certificates," vary from traditional CMBS in that buyers are provided a guarantee by Freddie Mac. In addition to the potential for another similar offering, government programs designed to increase credit flows into commercial real estate could be operational by late summer/early fall.

SUBMARKET OVERVIEW

- ◆ In the Naugatuck/Waterbury submarket, concessions declined from 3.4 percent of asking rents at the end of 2008 to 1.9 percent of asking rents in the second quarter. Year to date, vacancy in the submarket has dropped 30 basis points to 3.8 percent.
- ◆ The rise in vacancy in Fairfield County thus far in 2009 is attributable to the Class A segment, where the rate has climbed 250 basis points to 6.5 percent. The delivery of the Glenview House development in the East Fairfield submarket contributed to a 280 basis point increase in the area's upper-end vacancy rate to 6.4 percent.
- ◆ Asking rents in the New Haven/Harborside submarket have decreased 1.7 percent year to date to \$1,062 per month. Class A asking rents have retreated 2.3 percent, while Class B/C asking rents have slid only 0.9 percent to \$860 per month.

SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	New Haven/Harborside	3.0%	-80	\$1,047	-1.0%
2	North Haven/Wallingford	3.2%	-60	\$1,146	-0.6%
3	Naugatuck/Waterbury	3.8%	-50	\$890	1.8%
4	West Fairfield County	5.0%	120	\$1,962	-3.3%
5	East Fairfield County	6.6%	-140	\$1,162	-5.2%