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Private and institutional investors attracted to Hartford multifamily assets

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Despite some softness in apartment fundamentals and near-term challenges stemming from the continued economic downturn, the Hartford multifamily market continued to generate investor interest in 2009. Most of the buyers understand the long-term viability of the area's demand drivers and the role that rental housing assumes for many households that earn less than the metro area's median household income of \$66,100 per year. Transaction (sales) velocity in Hartford County for 2009 was off 52% from 2007 but consistent with 2008 from the standpoint of total units traded and total sales volume. On a positive note - on a dollars per-unit basis, Hartford County multifamily transactions in 2009 saw trades average almost \$74,000 per residential unit - well in line with 2007. Hartford continues to be referred to as "New England's Rising Star" and it will be on many buyers' radar screens this year as there will be a number of opportunities to invest in what is perceived as a growth market, albeit a preponderance of inner-city (B- to C quality) trades will be REO or the sale of distressed properties and/or non-performing notes and mortgages. With changing demographics - more echo boomers entering the rental market and baby boomers rethinking housing alternatives - we fully expect to quickly return to historically strong occupancy levels and solid rental growth for those property owners intuitive enough to competitively maintain their regional apartment communities. While we expect 2010 to be a tough year for commercial/investment real estate, multifamily is certainly the preferred product type for institutional and private investors delivering stable, solid returns, particularly in the supply-constrained Hartford County markets.

In 2009, there were sixteen larger apartment transactions (over \$1 million) totaling 1,564 units for total sales volume of \$115,086,095. In 2008, 1,500 units traded for \$128,196,000 and perhaps more telling: in 2007, 3,263 units traded for \$240,789,000.

Commercial/investment mortgage delinquency rates have ticked up throughout Connecticut but Hartford County - particularly urban Hartford - is the most effected. From 2008 into mid-2009 they were close to historical lows, with the overall average below 1%. The number of distressed commercial real estate assets in the Hartford market rose last year as fundamentals weakened and institutions and major investors continued to de-leverage their portfolios. A number of pending development deals stalled due to financing issues and many properties purchased at the height of the market and/or with adjustable rate mortgages will have to reset in the coming year. Investors must differentiate distressed properties from the rest of the marketplace, which remains extremely healthy compared to historical standards and other real property sectors. There is greater delinquency risk in the years ahead, however, with a significant number of large CMBS loans due to mature between 2010 and 2012.

An interesting side note is that rental apartment starts nationally are at lows not experienced since around World War II. Demand may be relatively weak now but will begin to peak in 2011 and there

simply is not adequate supply in the regional development pipeline. It's a good time to be a developer and in the supply-constrained Hartford markets, an excellent time to begin the permitting process for new multifamily development, catering to both empty-nesters and young professionals. Rental housing has strong appeal to young adults as over 70% of households under 30 years old have a propensity to rent in the regional markets and they represent a significant future growth source. There are also roughly 20 million 18 - 34 year olds living at home that are potential renters. Bottom line is that apartment fundamentals in Hartford County will strengthen later this year and demand for new (quality) product will increase with limited new units currently in the regional development pipeline.

The Hartford apartment market's historical above-average rent growth and tight occupancy will continue to attract investors and we fully anticipate a significant increase in transaction velocity this year. Larger transactions - those in the range of \$10 - \$50 million, where the purchaser is an institutional or larger private buyer (they have both discretionary equity and well-established relationships with agency lenders) has the greatest surety of closing in the current market. Reasonable job stability with nominal growth in Hartford County; tighter mortgage underwriting and concern over recapitalization of CMBS loans are expected to continue to generate solid demand from both private and institutional buyers in the supply-constrained, high barrier Hartford apartment market. Continuing an investment trend that began during the second half of 2009, sales velocity in Hartford will accelerate in 2010.

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