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Multifamily investors attracted to New Haven County - one of the best performing apt. markets

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In our January newsletter, the heading was: Pent-Up Demand to Attract Private and Institutional Investors to Connecticut Multifamily Assets. There seems to be however, a fair amount of confusion and ambiguity with respect to prevailing market conditions for multifamily properties in the region and we'll try to address where we are in the current cycle. Demand from both private and institutional buyers is currently much greater than the supply of properties on the market and we've seen some reasonable cap rate compression in the past six months. There is a 'second shoe to drop' later this year with respect to the recapitalization of older CMBS loans and a good deal of angst in other regional markets where vacancy is as high as 20%. For properties that have been reasonably well maintained that are located in desirable primary and secondary markets - there is a tremendous amount of capital sitting on the sidelines looking to invest. Bottom line is that the regional apartment market is considerably stronger than most people realize.

Private, Local Buyers Lead Acquisitions: In the middle of this decade, many private, local investors took advantage of the unprecedented jump in prices and vigorous competition among buyers to liquidate holdings. At the peak, they accounted for about 70% of all sellers, but now they are re-entering many markets. Private investors have accounted for 82% of the dollar value of acquisitions, compared with just 37% at the peak of the market four years ago. The re-emergence of private, local buyers may represent the clearest signal yet that prices have adjusted to levels that can be sustained by current operations. Motivated by lower prices, these investors will continue to re-evaluate portfolios, using local knowledge and a hands-on approach to acquire properties with the potential to increase in value as a recovery accelerates.

Institutional Investors Shifting Strategies: Deals in excess of $40 million stirred to life in the third quarter of 2009, after laying dormant for the first half of the year. The cautious return of large investors may signal a shift in strategies from wait-and-see to simply looking for reasonable yields. Values have dropped sufficiently to encourage these investors to resume acquisitions rather than risk missed opportunities by attempting to time the absolute bottom of the market. Activity by institutions remains subdued, though, representing only 4% of the dollar volume of properties purchased in 2009. As recently as 2007, institutions accounted for 36% of the acquisition volume, but they have since moved to the sidelines in response to the credit market freeze and concerns over deteriorating property performance. While they have not been highly active purchasers, institutions and REITs have been the predominant sellers in the past year, participating in nearly half of all dispositions over $5 million. This activity has largely been driven by institutions' need to cull properties in markets where they lack a critical mass to generate economies of scale and by their need to strengthen balance sheets.

The re-evaluation of institutional portfolios will continue this year, with capital expected to shift to markets where institutional investors have significant concentrations of assets and operational efficiencies already exist.

Apartment Fundamentals Stabilizing: The national vacancy rate has risen 210 basis points to 7.8% since the start of the recession, reflecting the extreme levels of job cuts and shadow market competition. The market appears to be stabilizing, with third quarter 2009 net absorption turning positive and vacancy only pushing up 10 basis points, the lowest uptick since the recession began. The vacancy rise has been fueled by increasing unemployment among the prime renter demographic of individuals aged 20 to 34 to 12.1%. The jump has been triggered by a significant surge in manufacturing, construction, leisure and hospitality, and retail sector employment cuts, which collectively account for more than 70%t of the jobs lost during the recession. For many workers in these sectors, apartments are the most viable and affordable housing option. In 2010, though, vacancies will flatten and concessions will burn off as the employment market stabilizes. New Haven County is one of the true bright spots with respect to maintaining strong levels of occupancy as we experienced an average of 4.4% vacancy in 2009 and we expect the same for 2010. The anticipated U.S. Metro Average for 2010 is 7.8% so inspite of market anomalies with respect to multifamily fundamentals we experienced in late '08 into mid '09 - New Haven County is one of the best performing markets in the county.

New Haven County and the state of Connecticut in general, are one of the most sought after markets in the country by both private and institutional investors for quality multi family properties.

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