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Conn. multifamily investment market shows signs of improving

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Despite short-term fears in the world economy sparked by the sovereign debt crisis, multifamily investment sales activity has started to improve dramatically in Connecticut. Although the recovery has been tepid in the Hartford and New Haven metropolitan areas, prospects for job growth and creation are positive.

Sales prices have held steady in Connecticut over the past two years, as owners have been reluctant to offer discounts in light of modest rent declines. Nevertheless, prices are expected to dip on a short-term basis due to previous revenue decreases and an overabundance of REO and distressed properties making their way to the market. Cap-rate rises should be modest, however, among Class A and B+ assets, where operating fundamentals have begun to improve quickly since the last quarter of 2009.

Local buyers continue to make acquisitions in Fairfield and New Haven counties, with a focus on historically stable, high barrier-to-entry markets. The pool of active investors for Connecticut multifamily properties has increased dramatically from the previous year as institutional investors re-enter the market and competition from private buyers intensifies. The median price has increased in both counties over the past year, though the gains are likely attributable to tight lending; constrained debt markets have caused buyers to focus on smaller properties, which generally trade at higher per-unit prices.

In Fairfield County during the last year, the average deal size was nine units, compared with 38 units in the preceding 12 months, while the median price surged 36%. In the two major on-market transactions involving assets with eight or more units conducted during that time, the median price was $96,070 per unit, 7% below the previous year's median. Similarly, in New Haven County, the average sold property size plummeted 73% year-over-year to 40 units. The median price, meanwhile, has climbed due to smaller property sizes, more upper-tier asset sales and milder rent declines.

Throughout Connecticut in 2009, 2,251 units traded for $188,532,880. Through April 30, only 315 units have traded statewide for approximately $16 million. Pending transactions anticipated to close in the next two quarters total more than $200 million, so a reasonably strong year for multifamily sales is anticipated, even though velocity is below 2008 and 2007 levels, when $800 million and $1 billion in transactions closed, respectively. While the first half of 2010 was challenging for the investment real estate market both nationally and regionally, multifamily remains the preferred product type for institutional and private investors. To that end, 2010 should close on a positive note and 2011 will see strengthening fundamentals, with some markets expecting double-digit rent growth and normalized levels of transaction velocity.

The high barrier-to-entry, supply constrained Connecticut apartment market is performing better than most other U.S. markets and investor demand well outweighs the current and anticipated supply.

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