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Conn. multifamily apartment market completes 2010 on a positive note: Expected to continue trend

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The Connecticut multifamily apartment market has completed 2010 on a positive note and is expected to continue this trend into and through the new year. During the economic downturn the state's multifamily market had performed with relative strength. Unlike many other areas of the country such as Florida, Atlanta and Las Vegas, Connecticut did not see significant multifamily construction over the past ten years. As such, Connecticut went into this downturn with a balanced housing stock. With no over supply, average apartment occupancies were in a healthy range of 96% to 98% going into 2008. During the economic downturn, in most areas of the state rental rates held firm with only slight rental declines if any. Occupancy rates for well run properties in most markets only experienced declines of 3% to 4% during the worst of the recession. Rental concessions while present have not been widespread. In local markets where leasing concessions were needed to spur occupancy and rental activity, they were limited in most cases to either a reduced security deposit or a discount on the first months rent only on select units.

Multifamily sales of larger apartment complexes that sold for over $1 million did not experience significant declines in sales price since the peak in 2007, but rather during the past three years there has been a significant decrease in the number of transaction closed. In Connecticut during 2007 there were 112 multifamily sales completed of over $1 million which declined to 70 in 2008 and 42 completed transactions in both 2009 and 2010. This according to information gathered from Conn-Comp, a real estate data service that tracks sales of commercial and investment property throughout Connecticut. During this time however, capitalization rates have remained relatively steady. Well located and well maintained, Class C & B apartment communities continue to trade in the 7.5% to 8.5% capitalization range in general, while Class A, institutional multifamily assets trade in the 6% cap rate area and below. Current capitalization rates reflect a modest cap rate expansion of approximately 50 basis points over 2007 levels. Historically low interest rates have served to offset modest income declines and expense increases, while maintaining the rate of return to the investor going into multifamily assets.

Chozick Realty has seen a noticeable change in investor sentiment that began in earnest during the second half of 2010 and has accelerated into 2011. Prior to this time, while historic levels of capital had been raised by investors, it had yet to be deployed in significant amounts. There was caution in the market that was fueled by uncertainty in the direction that lenders and special servicers who are charged with working out or disposing of troubled CMBS loans would take on REO and distressed assets on their books and watch lists in the state. Those who had been active during the early 1990s remember a flood of bank and FDIC controlled assets that knocked the bottom out of the market and caused substantial price declines. By mid 2010 it was clear that Connecticut would not see significant bank and CMBS foreclosures and the concern that a 1990s scenario would play out again had all but evaporated. Investors now flush with cash and with the ability to obtain bank and agency financing from Freddie Mac and Fannie Mae in the range of 5% began aggressively looking for multifamily acquisitions. By late 2010 interest rates had increased to the mid 5% range where they sit currently. The increase in rates has not slowed the appetite for larger apartment complexes, which remains robust. Chozick Realty closed on six larger multifamily transactions in the final quarter of 2010 and currently has several transactions under contract going into 2011. As one of the most active multifamily brokerages in Connecticut, the demand for property is well ahead of what is available on the market. Without exception the transactions facilitated by the company at the end of 2010 had multiple competitive offers from highly qualified and experienced investors.

The outlook for 2011's multifamily sector is bright. As unemployment has stabilized and job creation has begun, increases in both occupancy and rental rates are expected. Economists forecast that the interest rate environment should remain stable through 2011 at the same time as acquisition debt has become more readily available. It is expected that as more transactions are completed, sellers who have been holding their properties off the market for the past two years will bring them to market. This will begin a cycle that will reverse the 40% decline since 2008 in the number of transaction closed at prices over $1 million, returning the Connecticut multifamily market to pre 2008 levels.

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