nerej
CELEBRATING 55 YEARS

Hartford County Fall 2011 multifamily update: fundamentals and transaction velocity improving

September 15, 2011 - Connecticut

Declining home values, alongside a small but steady employment increase, continue to spur an improvement in apartment occupancy across the Hartford metro. Median home prices have fallen over 5% in the past 12 months, reaching the lowest value since late 2003. Consequently, would-be and former homeowners are enticed by the stability associated with the rental market. Vacancy rates reflect this transition as they have dropped to extremely low levels, allowing owners to nearly eliminate leasing incentives and lift asking rents to their highest levels to date. Operational improvements will continue despite a marginal supply increase and the completion of condominiums that could be employed as rentals. Strong operational improvements over the past year have attracted investors back into the Hartford apartment market; though deal flow may remain limited as owners of large properties hold onto their assets during this renewed upswing. Sellers requiring higher margins, coupled with buyers targeting smaller buildings, are beginning to push median sales prices higher. Nonetheless, average cap rates for all properties are 50 basis points above year-ago levels in the low to mid-8% range. Although buyers are moving down the value chain, average first-year yields will remain in their current ranges as NOIs improve.

CONSTRUCTION TRENDS

* The first-quarter completion of South Armory modernized-loft apartments brought on an additional 44 units to current stock, representing a 0.1% increase in overall inventory. This is the most recent addition to the market since the Deer Valley apartments added 96 units in mid-2010.
* Two competitive apartment projects currently under construction will increase stock by 256 units. One of the projects, The Mansions at Canyon Ridge, is a Class A complex with 220 units and is expected to come online in the second half of 2011.
* Over 1,800 market-rate units are planned in the metro, including 250 apartments that will break ground in the second half of this year. An additional 1,000 subsidized units are in planning stages.

RENT AND VACANCY TRENDS

* The employment gains that began in late 2010 have continued through the first half, restoring demand for rental housing. As a result, vacancy in the Hartford market has decreased 180 basis points, year over year, to 3.8%. This is the lowest vacancy rate since late 2003 and a 240 basis point decrease from the 6.2% peak during the recession.
* Historically low vacancy rates permitted owners to increase asking and effective rents by 1.9 and 2.2%, respectively over the past year, reaching $987 per month and $946 per month, respectively.
* Despite a modest uptick in new supply, vacancy will continue to travel lower, finishing the year at 3.3%, an annual improvement of 140 basis points. In response, owners will increase asking rents

3.3% to $1011 and receive an increase in effective rent by 4.2% to $978 per month.

SALES TRENDS

* Sales velocity accelerated mildly from the previous year, as investors take advantage of an increase in financing availability. Buyers will remain active in the second half of 2011 while some owners take advantage of favorable cap rates. With the 10-year treasury hovering around 2% and a reasonable supply-demand balance, we anticipate a number of deals closing prior to the end of the year.
* Within the small pool of deals completed in the most recent 12-month period, the median price of $51,250 per unit was 15% above the previous year as sellers search for higher price points after the improvement of operations. Through August only 375 units have traded in Hartford County for just over $19 million at an average per unit value of $50,827. Drilling down on sales year to date, kindly note that they are composed of B/C product in Hartford County and the average per unit value of just under $51,000/door reflect this. There is still a fair amount of distressed and REO product coming to market in Hartford County with the assumption that there is roughly another year to move the properties through the system.
* Cap rates on recently closed B/C sales in Hartford County are averaging in the low to mid-8% range, increasing only a small amount from the previous 12-month period. Rates for A-quality suburban garden or urban high rise properties are commensurate with other national markets ranging from the high 5 to mid 6% range - recently compressed in correlation to the 10-year treasury rate.

Steve Witten is senior director of the Institutional Property Advisors Group of Marcus and Millichap based in New Haven, Conn.