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Vacancy poised to fall in the Hartford multifamily sector, sparking greater rent growth

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unsettled single-family housing market, and growing rental housing demand are driving a robust turnaround in the Hartford multifamily sector, making the market one of the strongest in the country. Vacancy will fall to less than 3% in 2012, enabling property owners to raise rents significantly. Some of the greatest gains will likely occur in the North/ West Hartford and South Hartford/North Middlesex submarkets, where vacancy rates are less than 3%. Overall, vacancy and rents have likely improved sufficiently to justify construction, and many planned projects may accelerate through the pipeline in the quarters ahead. The track record of recently delivered projects will likely embolden developers. In the North/West Hartford submarket, for example, vacancy fell 60 basis points last year after a 264-unit complex came online. The multifamily sector is also getting a lift from the still-struggling single-family housing market, where sales volume fell 20% last year. Mortgages remain hard to obtain, and many would-be homebuyers will remain in rentals for an extended period as a result. The Hartford market continues to attract attention from investors, perhaps to a greater extent than other markets of similar size. A slight decline in transaction velocity over the past 12 months most likely reflects a lack of product available for sale rather than a waning desire to obtain local properties. Low interest rates and the expanded availability of acquisition financing are sparking interest, and many owners will find a competitive bidding climate for well-performing assets in sound physical condition. Cap rates for most assets generally sit in the 7% range, but will likely compress as a result of keen competition. Properties located in strong and established residential communities in the western half of the metro will garner attention due to the stability and desirability of the neighborhoods where they are located. Elsewhere, properties in the city of Hartford have also enjoyed the turnaround in property performance and appear poised to remain high-demand locations for recent college graduates.

Employment: In 2012, employers will add 5,500 positions, expanding total employment 0.9% and restoring payrolls to the pre-recession peak. Last year, 7,100 positions were created.

Construction: Developers will bring online 270 market-rate rentals in 2012; 264 units were delivered last year. The planning pipeline contains 2,500 units, though no start dates are currently scheduled.

Vacancy: Residents will move into rentals at a robust, albeit somewhat slower, pace in 2012, reducing vacancy 50 basis points to 2.8%. The rate plunged 140 basis points during 2011.

Rents: Asking and effective rents will each surpass the $1,000 per month threshold in 2012, with asking rents rising 4% to $1,041 per month and effective rents gaining 4.4% to $1,005 per month. In 2011, asking and effective rents rose 2.1% and 2.4%, respectively.

Employment

Employers added 7,100 positions in 2011, including 7,200 jobs in the private sector. Approximately 8,800 workers were added to professional and business services, leisure and hospitality, and education and health services payrolls, but the financial services sector shed 1,900 jobs.

The unemployment rate in the metro area plunged 100 basis points last year to 8%, slightly less than the rate for the entire state. High unemployment will suppress income growth and delay purchases of single-family homes by many current rental households.

Outlook: In 2012, employers will add 5,500 positions, expanding total employment 0.9% and restoring payrolls to the pre-recession peak.

Construction

Last year, 264 market-rate rentals were completed in the market, consisting of primarily the 220-unit Mansion at Canyon Ridge in East Windsor. The project was delivered in the third quarter. Also, permits for about 300 units of multifamily housing were issued during the year.

Work has resumed on the 270-unit second phase of the Mansions at Hockanum Crossing in Vernon. The project is slated to come online in the fourth quarter. The planning pipeline, meanwhile, contains approximately 2,500 units, an amount that would expand rental stock 7% if all projects were built. The largest potential increase in supply is in the city of Hartford, where 700 planned units represent 15% of existing stock.

Outlook: Developers will complete 270 market-rate units this year, consisting entirely of the project in Vernon.

Vacancy and Rents

Another year of robust demand for Class A rental housing fueled a 140-basis-point drop in vacancy to 3.3% in 2011. The number of occupied Class A apartments grew 3.1% during the year, slashing vacancy 120 basis points to 4.3%. Vacancy at Class B/C complexes fell 150 basis points to 2.7%.

Average asking rents increased 2.1% in 2011 to $1,001 per month, while effective rents advanced 2.4% to $962 per month. The Class B/C sector led the way in asking rent growth, posting a 2.3% gain to $885 per month.

Outlook: Vacancy will fall 50 basis points to 2.8% in 2012. Asking rents will surge 4% to $1,041 per month, accompanied by a 4.4% spike in effective rents to $1,005 per month.

Sales Trends

Transaction velocity fell about 15% over the past 12 months, based on a limited number of deals.

The median price of properties sold during the past year was $54,100 per unit, marking a slight decline from the preceding 12 months. Cap rates for most stabilized assets typically range from 7 to 8%, though larger Class A complexes change hands at less than 7%.

Outlook: Strong property operations, restrained construction and low interest rates will sustain a strong level of investor interest during 2012.

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