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Investors continue to focus on multifamily investments in the city of Hartford

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The Hartford apartment market is expected to post a higher vacancy rate this year and a rate of rent growth on par with the annual increases recorded over the past 25 years. Although the area's apartment market is not prone to overbuilding, and will not be overbuilt soon, supply-side dynamics will nonetheless be the dominant force behind changes in local apartment fundamentals this year.

In 2007, builders completed only 160 units in the market which encompasses Hartford, Tolland, Middlesex, Windham and New London counties. Properties completed last year expanded rental stock by a scant 0.5%, but completions will accelerate to 550 units in 2008, representing supply growth of 1.6%.

With a projected increase in supply and a slowdown in demand stemming from lackluster job creation, the vacancy rate in the Hartford market is forecast to rise 50 basis points this year to 4.9%, compared with a 60 basis point fall in 2007. Slightly different trends are expected to occur in the city of Hartford and the suburban communities in the MSA, however.

Although demand for well-maintained in-city rentals is strong, the vacancy rate in the city of Hartford is typically greater than the entire market due to deliveries of new projects. This year, 190 units are expected to be delivered in the city, including 129 units at the south armory portion of the Colt Gateway project. Accordingly, the vacancy rate in the city is forecast to rise 90 basis points this year to 6.2% as new units are gradually absorbed. Last year, no new projects came online and vacancy declined 340 basis points.

In suburban submarkets of the MSA, meanwhile, the vacancy rate is projected to climb 40 basis points to 4.5%; in 2007, the vacancy rate rose 30 basis points as demand eased. New rental projects will increase rental supply by 1.1%, exceeding a slower pace of demand attributable to a reduction in job growth. A softer single-family housing market, though, will act to limit the increase in vacancy. The metro area's highly affordable housing has often caused periodic spikes in apartment vacancy as tenants migrate to owner-occupied housing. Single-family housing in the metro area is still affordable, but mortgage credit remains tight. Some residents, therefore, will remain in rentals for a while longer, waiting for credit conditions to improve.

As for rent growth, asking rents in the Hartford market are forecast to rise 3.3% to $980 per month, in line with long-term annual rent growth of 3.4%. Also, effective rents are projected to advance 3.2% to $938 per month. The projected increases in rents partly reflect the effects of the delivery of new, higher-priced units. In fact, asking rents in the city of Hartford may rise as much as 4% this year as new space comes online.

The market's steady rent growth and relatively stable balance of supply to demand will increasingly draw investors to the market. Additionally, Hartford is unique among markets in the region in that it may be considered a growth market. The population in the Hartford MSA, which is defined as

Hartford, Middlesex and Tolland counties, is projected to increase by 7,300 people annually over the next five years.

In Hartford County for 2007, 34 apartment properties (from 12 to 400 units) encompassing 3,263 units traded for total sales volume of $240,789,000. Average price per unit was just under $74,000 and the average price per s/f came in at just over $83.

Statewide for 2007, average per-unit sales value was $142,782 versus $122,803 for 2006 and $88,368 for 2005. Fairfield County skewed the data somewhat with only 799 units trading but with total volume exceeding $450 million, which represented more than one-half of all the dollars spent statewide for 2007. Hartford County transactions grew by 23% with average per-unit value increasing from more than $61,000 to almost $74,000 but total sales volume increased by 49% (from $162,240,000 to $240,789,000). Based on dollar volume, Fairfield County recorded 51% of the almost $900 million in apartment transactions for 2007, but 52% of the total units traded in Connecticut for 2007 were in Hartford County.

In 2008, investors will continue to focus on multifamily investments in the city of Hartford due to its sizable population of potential renters and the cumulative positive effects of ongoing revitalization efforts in the city. Similar to what the city of New Haven experienced a few years ago - people working in downtown Hartford are now living in newly constructed or adaptively re-used properties in the Hartford CBD. The convenience and access to shops, restaurants and theaters has become highly attractive to lifestyle, urban renters. Hartford's time has come and it is a burgeoning market for multifamily investments.

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