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Apartment owners anticipate strong rent growth in Hartford due to limited construction

September 20, 2012 - Connecticut

Unwavering rental housing demand and limited construction will maintain tight vacancy and fuel vigorous rent growth in the Hartford apartment market in the second half of 2012. The local job market performed dismally in the first half, but the creation of 8,000 new jobs since the recession's end has enabled many residents to move into apartments, reducing vacancy to its current low level. Over the long term, Hartford will remain a draw for college graduates seeking knowledge-based jobs in finance, law, medicine and manufacturing, which has been a bright spot this year. However, the slowdown in hiring in 2012 may modestly raise vacancy early next year, though minimal construction will persist. The only portion of the market where potential overbuilding is even a dim prospect is downtown Hartford, where a shortage of rental housing persists and demand is expected to grow, fed by the presence of major employers. Across the entire market, however, the potential completion of one or two properties annually will not greatly affect vacancy trends.

In the local Hartford economy, approximately 500 positions were cut in the first two quarters, led by a loss of 1,900 jobs in government departments and agencies. Private-sector employment expanded 0.3%, or by 1,400 positions, in the first half. Manufacturers added 1,800 jobs, although the recent acquisition of Goodrich by United Technologies, the state's largest private employer, could result in some payroll cuts and consolidation in the months ahead. Also, bars, restaurants and hotels hired 1,300 workers.

Vacancy fell 20 basis points in the first half of this year to 3.1%. Positive net absorption was recorded in five of seven submarkets, with only the Southwest and Tolland/Windham posting minor declines in occupied units. Average asking rents rose 1.6 percent in the first half to \$1,017 per month, outpacing the 1.4% gain posted in the second half of last year. Concessions waned behind a 2.2% spike in effective rents to \$983 per month. Effective rents advanced 1.7% in the final two quarters last year.

Only 220 market-rate rentals were delivered over the 12 months ending at midyear 2012. Work continues on the 270-unit second phase of the Mansions at Hockanum Crossing in Vernon and the 115-unit Storrs Center in Mansfield. Both projects will come online in the second half of 2012. Plans to convert the former Bank of America tower and the Constitution Hotel in downtown Hartford to multifamily rentals with affordable housing components recently received a boost when both projects were approved to receive state funding. The projects will add a combined 500 units to the market's pipeline of planned projects, which includes an additional 2,900 units.

Many property owners continue to take advantage of low interest rates and the strengthening in market performance to present assets to a sizable and competitive pool of investors. Relatively long construction cycles and resistance to multifamily development in many communities leave property purchases as the least challenging and most immediate path to ownership. In recent sales and

current listings, cap rates on functioning rental assets in downtown Hartford start around 6%. Conversion-oriented buyers have also recently targeted moribund office buildings and other under-used properties in the market's urban core.

Cap rates on suburban assets can vary widely depending on location, proximity to services for residents, and property age, but typically start 50 to 75 basis points more than urban properties. Favorable financing terms continue to fuel investment in Hartford and around the country, with the Fed promising to maintain low interest rates until late 2014. Fannie and Freddie financing is generally offered at rates 200 basis points to 250 basis points above the 10-year U.S. Treasury.

Key Hartford, Conn., Facts

Employment: Concerns over the upcoming election and possible cuts in government spending early next year will affect hiring plans in the month ahead. In 2012, local employers will add 3,300 positions, expanding total employment 0.5%. All of the growth will occur in the private sector. Last year, 3,800 positions were created.

Construction: Projects in Vernon and Mansfield will add 385 market-rate rentals to the market this year, an increase from 220 apartments in 2011. Properties slated to come online in 2012 will expand market-rate stock 1 percent.

Vacancy: Projects slated for delivery in the second half will find strong demand, contributing to a 30-basis point decrease in vacancy this year to 3.0 percent. The vacancy rate plunged 140 basis points in 2011.

Rents: In 2012, asking rents will rise 3% to \$1,031 per month, exceeding the increase of 2.1% last year. Leasing incentives will continue to dwindle as effective rents advance 4% to \$1,000 per month, outpacing the 2.4% gain registered in 2011.

Year-to-Date Sales: Through July 792 units have traded in Hartford County for total YTD 2012 sales of \$30,434,000 at an average of \$38,427 (most of the trades were REO).

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