nerej
19 63 CELEBRATING 55 YEARS

Building on previous years trends, another strong year for the Conn. multifamily market for 2014

January 30, 2014 - Spotlights

2013 was a great year to be in the Connecticut multifamily arena and 2014 is expected to be equally as attractive. As the year begins, apartment occupancy levels are above 95% with many communities experiencing little to no vacancy and increasing rents. The point we find ourselves in the multifamily cycle was largely set in motion six years ago by the start of the 2007 "Great Recession", caused largely by the collapse of the subprime home mortgage market after housing prices peaked and began to decline in July 2006. While the resulting home foreclosures, worldwide liquidity crisis and spike in unemployment were climatic events, their aftermath served to tee up multifamily properties to be the darling of the real estate investment world.

By 2008 multifamily properties nationally as well as here in Connecticut were experiencing increased occupancies followed by increasing rents. While the recession in the US officially ended in June 2009, the resulting monetary and regulatory policies put in place as well as the employment picture have continued to benefit the multifamily sector's performance year over year. While the first wave of increased occupancy was a result of individuals moving to apartments from home ownership, or delaying purchasing their first home, the current improvement in the jobs market is helping Millennial's move from their parents basements to their own apartment. According to the National Association of Realtors, the average apartment vacancy in the US will be just 3.9% in the first quarter of 2014 with most markets across the country, including Connecticut, expected to see further rental increases.

Nationally, 160,000 new apartment units are expected to be delivered in the top 54 US metropolitan markets in 2014 according to CoStar. Connecticut is no exception with new apartments being developed in many markets. In Fairfield County, 1,370 units are expected to be delivered this year. In downtown Hartford, residential demand is driving the adaptive reuse of older buildings which are being converted to upscale residential apartments. Currently three buildings are in the process of conversion, the largest of which is the long dormant Sonesta Hotel on Constitution Plaza being turned into 193 units, with additional projects on the drawing board. It is anticipated that downtown Hartford alone can absorb an additional 1,000 units in the near term.

Connecticut contains two of the 10 tightest multifamily housing markets in the Country. New Haven sits at number one with a 2.2% vacancy rate and Hartford at number six with a 2.8% vacancy, according to Reis Inc., a real estate research firm. According to Reis, average rents in 2013 included a 2.5% increase in New Haven and a 1.8% increase in Hartford with further increases in 2014.

With the Federal Reserve tapering its bond purchase program to $75 billion per month, down by $10 billion, the bench mark ten year Treasury bond has increased 118 basis points from its 2013 low of 1.66% in May to 2.84% as of January 17, 2014. The Fed has committed however, to leave the

Federal Funds Rate between 0% and .25% until unemployment is below 6.5% for an extended period. Mortgage rates are expected to remain range bound for much of the year, with a tendency to modest increases.

Over the past year Chozick Rlty. has brought several apartment communities to market, conducting national marketing campaigns of between 35 and 45 days. Each of these campaigns brought in multiple highly competitive bids from seasoned real estate investors from both in and outside of the region, supporting the high demand in the State for multifamily assets. We expect this trend to continue through 2014 as purchasers continue to deploy capital into the multifamily sector.

For investors with a regional or national investment appetite, Connecticut compares favorably with our neighbors in the region with slightly higher going in cap rates than the New York and Boston markets. Throughout most of Connecticut cap rates for class "A" properties are in the 5%-6% range; class "B" properties ranging in the mid 6% to 7% range, depending upon property characteristics and class "C" properties will fetch cap rates in the mid 7% and higher, depending upon condition and location.

Our observation is that available apartment complexes for sale will continue to fall short of investor demand through 2014 and the imbalance between supply and demand will keep cap rates within their current range even with modest increases in interest rates.

In our 48 years of multifamily brokerage, we have not seen stronger multifamily fundamentals, with occupancy levels, rental demand with rental increases, liquidity and buyer demand all converging at all-time highs, leading to another bright year for the Connecticut apartment market in 2014.

Rick Chozick is the president and managing director of Chozick Realty, Inc., Hartford, Conn.