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Lending market for southeastern Connecticut apartments remains positive

May 15, 2008 - Connecticut

The Southeastern Connecticut multifamily sector has remained healthy even though the economy and commercial real estate market continue to work through the wake of the capital markets crisis. Some single-family homeowners have defaulted on their mortgages in this region of Connecticut, thus positively impacting apartment owners and bolstering fundamentals. Over the long-term, the multifamily investment market is expected to improve, thanks to some recent steps the government has taken to stave off a full-blown recession. The Fed has become aggressive in its efforts to prevent an extended economic downturn. In addition to two recent rate cuts that have totaled 100 basis points, the Fed has taken measures to stabilize credit markets and restore liquidity. Moderate economic expansion is forecast this year, bolstered by healthy business investment.

While the effect of these interest-rate cuts hasn't been felt immediately, operating fundamentals in Southeastern Connecticut's multi-family market are stable, and should only strengthen over the next five years. The population in the New London-Norwich MSA is small but growing, which should drive demand for rental units in the future. Currently, the total population is 267,380 people. The U.S. Census Bureau expects the region's population to grow nearly 1.8% in the next five years. We expect the renter cohort group aged between 30 and 34 to expand 13.58% in the next five years. Also bolstering demand for rental units is the projected employment growth in New London-Norwich. By 2013, employment growth is expected to increase 3.6%, led by the leisure and hospitality, education and health services, and information sectors.

Local investors looking for long-term holds will acquire valued-added assets in Norwich, Groton and New London. Investors who acquire well-located, Class A and B assets in these areas will achieve healthy income streams from the rent growth anticipated over the next five years. Strong multifamily investments still exist in the market. A savvy investor would be wise to take advantage of this market, which boasts reasonable cap rates and realistic prices coupled with attractive, low interest financing. Transaction velocity in the market increased last year and is expected to rise again in 2008. As 2008 continues to unfold, multifamily properties not only in Southeastern Connecticut, but throughout New England, will be valued based on their current or achievable pro forma income.

Southeast Connecticut apartment asking rents are forecast to increase 2% in 2008. Vacancy is expected to remain stable as population growth and new renters from the single-family housing market provide a steady stream of occupants for owners.

It is an opportune time to buy, and recent transactions and current activity reflect as such, including 350-unit, 125-unit and 225-unit properties in New London, Norwich, Groton and Montville. There is a healthy amount of buyer interest in a market that flourishes due to strong base industries, including Pfizer, and the world's two largest casinos: Foxwoods and Mohegan Sun.

Debt capital is still available, but sources have shifted. While conduit originations slipped 47% in the second half of 2007, other lending sources have stepped up activity. During the latter half of the year, originations among life insurance companies rose 16% from the previous six months, while commercial banks increased activity by 33%, and Freddie Mac and Fannie Mae originations climbed 66%. Increased agency lending is providing a strong boost to the apartment sector, which recorded a 6% gain in originations in the second half of the year, compared to decreases across other core property types. This demonstrates that financing sources are still available to multi-family buyers and will contribute to a moderate increase in transaction velocity.

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