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Multifamily sales remain strong in Connecticut

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Healthy job growth in Connecticut's major metropolitan areas, tighter mortgage underwriting standards and rising single family home foreclosure activity are expected to generate solid tenant demand for Connecticut multifamily units in 2008. In addition, limited deliveries of new product should keep overall vacancy rates across the state relatively stable through year end 2008.

Despite widely published reports of a slowdown in the commercial real estate sector, sales velocity and investor interest in Connecticut apartment assets remains strong, judging by recent sales data. Year-to-date, through the end of May of 2008, Marcus & Millichap has tracked the sale of 1,040 apartment units in Connecticut, totaling nearly $260 million. Compare that to the same period from 2007, during which time considerably more units traded (2,756) but for a lesser total sales volume of $247.2 million. In terms of total sales volume year-to-date, the highest level of activity occurred in Fairfield County, where $213.8 million in apartment sales closed during the first three months of 2008, compared to only $12.9 million during the same period in 2007. At an average per-unit value of just under $800,000 per residential unit, the data for two recorded sales in Greenwich somewhat skews statewide statistics and without that transaction, we have actually closed just under $64 million for an average per unit value of $50,000.

Transaction velocity in Connecticut is expected to remain healthy in the final two quarters of 2008 with well over 3,000 units under contract expected to close by year end. Class A properties in and around the city of New Haven and portions of Fairfield County, where single family housing prices remain well above the national average, are expected to trade at cap rates in the mid-6% to low-7% range, up slightly from 2007. Meanwhile, Class B/C properties in centrally located communities, such as Waterbury, Hartford, Middletown and Meriden, will continue to attract buyers seeking to add value either by raising occupancy levels or by lifting rents to current market rates or higher.

Through the last half of 2008 and into 2009, both private and institutional investors will actively seek out apartment acquisition opportunities throughout Connecticut. Opportunistic investors would be wise to acquire assets in second and third-tier markets, where cap rates remain relatively high and value-added opportunities abound.

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