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Conn. apartment market remains solid as the national economy continues its trend

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Connecticut is one the wealthiest states in the union, featuring both the highest per capita and median household income in the country. Although, challenging economic conditions have recently shaken most of the country, Connecticut stands firm on its solid foundation. During the past 12 months, the state has experienced modest employment growth, creating just over 5,000 new positions or .3%. Much of the job growth was centered in the Hartford metropolitan area, where payrolls expanded by 1.3% or 7,500 positions. The strongest sector in Hartford has been the education and health services sector, adding over 3,000 jobs during the past 12 months. Although the state has experienced job growth over the past year, it has not been immune to layoffs. The bulk of the jobs eliminated during this time are in the financial activities and construction sectors. In recent months, the rise in energy prices and the local and national economic slowdown have caused employers to streamline business operations and reduce payrolls moderately. For example, the New Haven metro has trimmed approximately 2,500 payrolls in the past 12 months, most of which are in the housing- and mortgage-related fields. The unemployment rate in the state is 5.4%, 10 basis points below the national average.

The housing sector in the state has contracted during the past year, with transaction velocity slowing and prices moving lower. Sales velocity is lower, nearly 17% during the past 12 months. Additionally, the price for a median single-family home in the state is $265,000, down nearly 5% from the peak of the market reached in the second quarter of last year. Like many other states, Connecticut has pockets of expensive real estate. Fairfield County, one of the most affluent counties in America, has a median home price well-above $600,000, pushing the state average higher. Home prices in Fairfield County have remained elevated, due to a large number of residents who commute to jobs in New York City.

Statewide, market fundamentals in the rental-housing sector in Connecticut remain reassuringly sound, although healthy demographics are spurring increased construction which may adversely affect market metrics. Much of the new development is taking place in the New Haven-Fairfield County area. Nearly 1,000 units are projected to come online by year end after fewer than 500 units were added to inventory in 2007. Despite positive absorption, the rise in construction activity in the metro will likely push vacancy rates 90 basis points higher to 5% by year end, still below the national average.

Despite the forecast vacancy rise, apartment owners will be able to continue to increase rents. By year-end 2008, asking and effective rents are both expected to advance 3.8% to $1,625 per month and $1,585 per month, respectively. This metro sets the pace for the state as vacancy remains extremely low and rent growth is among the highest.

Nationally, developers will deliver 102,000 apartments in 2008, up from 86,200 units in 2007. In addition, several conversion projects have returned to apartment stock in recent quarters. Despite the rise in new supply, development activity in 2008 will remain low compared to the late 1990s to 2003, when deliveries reached an annual average of 150,000 units. Construction starts are likely to fall due to the slower economy and tighter financing climate, however, potentially resulting in a shortage of units during the next three years. Between early 2000 and year-end 2004, total renter households declined by 1.9 million, as the home ownership rate increased from 66.9% to 69%; however, the trend began to reverse in 2005. Since then, the home ownership rate has fallen to 67.8%, which translates to 2.6 million households that required alternative housing. Apartment owners will also benefit from the emerging echo boom generation, who have just begun to enter their prime renting years.

Tighter credit markets and the local and national economic uncertainty have resulted in less robust commercial real estate investment activity across the country, including Connecticut's apartment properties. During the next few quarters, limited for-sale inventory will likely continue to restrain sales activity; however, many investors will still receive competitive bids for listed properties. Even with fewer buyers in the market, apartment properties have maintained valuations; as of the first quarter, the median price was $65,000 per unit, up 2.9% from one year ago. Cap rates are hovering in the low 6% range for A quality properties and the mid-7% range for B quality suburban garden and high rise communities, significantly higher than neighboring New York City and one of the principal reasons there is such great demand for Connecticut apartment product. Despite near-term headwinds, the multi family investment market in New England remains bright supported by low vacancy rates, modest construction, healthy rent growth and strong, stable investment yields.

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