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Solid multifamily fundamentals attract investors to Hartford

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Steady tenant demand due to ongoing uncertainty in the residential for-sale housing market will keep occupancy tight in Hartford County, allowing for modest rent gains well into next year. Growth within Hartford's employment base will moderate through year end, while heightened apartment development activity will be offset by softness in the housing market, supporting tenant demand. As a result, both private and institutional investors will continue to target multifamily opportunities in the Greater Hartford County area.

During the past 12 months, employers have created approximately 1,600 positions within the metro, representing an annual growth rate of 0.2%. Additions in the government and educational and health services sectors were offset by losses in the construction and financial services sectors. Employment growth is forecast to center on the educational and health services sector this year, which is expected to generate 2,200 workers, for 3% annual growth. The estimated rate of job expansion for 2008 is 0.1%, or about 630 new hires.

While apartment demand generated by job growth is projected to moderate throughout the year, demand is forecast to arise from current housing market uncertainty. The median single-family home price is off nearly 10% year over year, and sales velocity is down 15.8%. Mortgage lending remains conservative, and lenders are requiring higher down payments in the wake of rising interest rates. As such, more individuals are remaining in the renter pool longer, further supporting apartment demand in Hartford. Echo boomers are also entering the pool of available renters, driving both occupancy and rent growth.

On the supply side, scheduled deliveries are expected to amount to 570 units this year, an addition of 1.6% to the stock of existing multifamily properties. During the past five years, new multifamily completions have averaged 400 units annually. The longer-term outlook points to a decrease in production. Annual multifamily permit issuance as of the second quarter totaled just 167 units, down 84% during the past 12 months. While annual completions will average 580 units through 2010, forecasts point to a reduction in development activity beginning in 2011.

The short-term increase in inventory will drive a modest uptick in vacancy. During the last year, vacancy has remained stable at 4.8%. As the new units begin to lease up through the third and fourth quarters, vacancy will rise subtly. By year end, vacancy is forecast to push up modestly to 5.2%.

Despite the expected projected increase, the market is fairly tight. Occupancy will remain near 95% well into 2009. During the past 12 months, asking rents have gained 3.2% to $990 per month, while effective rents have pushed up 3.1% to $928 per month. Concessions are 6.3% of asking rents (varying by property type and location), up from 4.2% one year earlier. Leasing incentives are expected to steady through year end due to the negligible increase in vacancy. Asking and effective rents are forecast to reach $976 and $935 per month this year, each up 2.9% from 2007.

Turning to the investment sales market, prices continue to increase and investor interest remains high. During the first half of 2008, Marcus & Millichap has tracked the sale of 1,258 units in Hartford County for approximately $117.15 million, averaging more than $90,000 per unit and almost $90 per s/f. During all of 2007, Marcus & Millichap facilitated the sale of the majority of the 3,263 units that traded, commanding a total of $240.78 million. On average, these properties traded for approximately $70,000 per unit and more than $80 per s/f.

While the market's above-average rent growth and tight occupancy will continue to attract investors, more stringent lending standards and rising interest rates will restrain transaction velocity. Larger transactions - those ranging from $20 million to $100 million, in which the purchaser is an institutional or major private buyer with discretionary equity and well-established relationships with lenders Â-- are most likely to close in the current market. Cap rates have averaged in the low-7% to mid-8% range during the past 12 months for Class B/C properties and the 6% to 6.5% range for Class A regional assets. While cap rates have remained fairly stable over the past year, changes in the cost of capital could drive cap rates up over the next 12 months. Reasonable job growth in Hartford County, tighter mortgage underwriting and rising residential foreclosure activity are expected to continue to generate solid demand for Connecticut apartment properties from both private and institutional buyers.

Steve Witten is a vice president, investments and senior director of the National Multi Housing Group in the New Haven office of Marcus & Millichap Real Estate Investment Services.