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Government intervention to spark Conn. apt. market

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The United States is in the midst of unprecedented levels of government spending and market intervention. New measures are focused on stabilizing the banking industry and real estate markets by improving credit flows, which are designed to spark an economic recovery. After the onset of the credit crunch in the second half of 2007, the Federal Reserve began to aggressively cut interest rates and pump liquidity into the system. In early 2008, the Economic Stimulus Act was passed which included $100 billion in stimulus checks for U.S. households. This stimulus money and government intervention, combined with the Fed's 2008 bailout of GSE's Fannie Mae and Freddie Mac, should have a positive long term impact on the Connecticut multifamily investment market.

Regardless of the dollar amount of government stimulus or the depth of tax cuts, function first needs to return to the credit markets for the economy to stabilize. Businesses are struggling, as many forms of credit remain tight, ranging from lines of credit to acquisition loans and even inventory financing. U.S. households have seen home equity lines of credit pulled and credit card limits cut. Even some seemingly creditworthy households have struggled to qualify for residential mortgages, as lenders are requiring stronger credit scores and higher down payments. Government intervention to stabilize the banking sector and stimulate credit markets has been vast and far-reaching. In addition to reducing the Fed funds rate to essentially zero, the Federal Reserve has expanded access to credit through its Discount Window and created multiple new credit facilities that allow for a broader range of collateral. Furthermore, the Fed opened the door for securities dealers to borrow directly from the central bank. Specific facilities also have been created to pump liquidity into various segments of the financial sector. The Fed established the Term Action Facility (TAF) in December 2007, offering depository institutions an opportunity to obtain credit through a bidding process.

Additional programs were rolled out, including AIG, money market funds and the commercial paper market, which came to a near standstill last fall. Furthermore, the Fed approved currency swap agreements with several foreign central banks to help quell concerns regarding dollar liquidity in global markets. Additional support for credit markets came in late 2008 when the Fed announced plans to purchase $600 billion in debt backed by housing-related government-sponsored entities. As a result of government intervention, residential mortgage rates have slipped to the lowest level in decades. In addition to Federal Reserve support, the government has enacted significant programs focused on unlocking credit markets. The first was TARP, which was passed in October 2008 and was initially intended to purchase toxic assets from troubled financial institutions. The government instead used much of the initial $350 billion-installment to recapitalize banks through preferred equity investments.

Although risks to the economy and financial system still exist, Connecticut apartment investment opportunities should be viewed with a long term perspective. The U.S. economy is expected to bottom in 2009, setting the stage for an economic recovery to begin in 2010, with commercial real estate following the trend. Even with modest job growth compared to past economic recovery periods, multifamily property fundamentals will stabilize, bringing a substantial volume of capital off the sidelines.

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