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New multifamily investment opportunities arise in Hartford

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Mounting job losses are expected to have a moderating effect on the Hartford apartment market this year. Nevertheless, renter demand will persist, as the region's renter population remains locked in by high home prices. Central Connecticut's concentration of insurance companies, most of which reported significant losses in the first quarter, will hamper the ability of Hartford to recover from the economic downturn. With 3,000 layoffs in the first quarter of 2009, total job cuts are expected to reach 18,000 positions this year, a total work force reduction of 3%. Key apartment-supporting industries such as construction and leisure and hospitality continue to struggle, although the combined first quarter elimination of 2,000 jobs was less than expected.

Apartment investors targeting the Hartford region have been faced with a shortage of quality for-sale product. Dollar volume dipped 45% from the previous year in 2008, compared to the East Coast average decline of more than 50%. Regional per unit prices ended last year at an average of just over $85,000, up 16% from the preceding year, although Class B/C cap rates that once averaged in the low to mid-7% range now start at 8% or higher.

Professional and business services and financial activities firms are expected to contract 13.3% and 5.6%, respectively, this year with the combined loss of 13,000 jobs. This could negatively impact the local Class A apartment market until these sectors begin to expand again in mid to late 2010. The sturdy education and health services sector has been the only industry to post job gains amid the metro's broad-based contraction, with 500 positions added in the first quarter of 2009.

Most major insurance companies in Hartford will record losses. Industrywide reductions, however, may not be as severe as once expected, as many of the cuts are likely to occur in call and claims centers or among other lower-paying positions. Nonetheless, CIGNA, which announced in January that it would trim 1,100 jobs, plans additional layoffs in the coming year, potentially impacting its 3,800-worker Bloomfield headquarters.

Looking at the numbers, vacancy and rental rates will get a much-needed assist from reduced development levels this year. After approximately 400 units were delivered in 2008, fewer than 360 units are expected to come online this year, an increase in stock of 1%. The 220-unit Mansions at Canyon Ridge in East Windsor, the newest addition to the local inventory, is currently in lease-up.

Condominium development has slowed significantly from 2008, when 700 units were delivered, with just 160 for-sale units slated for completion this year. Economic and housing issues are expected to limit condo construction going forward, although nearly 1,400 condo units are currently under consideration. There are no projects underway or scheduled for delivery in 2010. The pipeline of planned developments contains approximately 400 apartment units, none of which have a scheduled start date.

After rising 100 basis points in the first quarter, vacancy will finish 2009 up 80 basis points annually at 6%, though vacancy could reach as high as 10% in suburban Class A and weaker Class C properties. While year-end vacancy will be about 150 basis points to 200 basis points higher than the average over the past eight years, it is still fairly strong compared to much of the East Coast. As a result of the jump in vacancy, asking rents are forecast to drop 1% this year to $957 per month, erasing a portion of the gains made over the past 12 months. These changes represent the first negative trends for the area in more than a decade; however, the market remains reasonably fit in relation to most East Coast metros.

Although fundamentals have softened in Hartford, this stage in the real estate cycle is one of the most opportune times to invest in apartment properties. Fannie Mae and Freddie Mac are still providing financing, especially for product in urban areas with supply constraints. In addition, the non-existent development pipeline will have a positive effect on future occupancies and rents. The economy is expected to bottom in 2009, setting the stage for a recovery cycle to begin in 2010, with the apartment market following the trend. Even with modest job growth compared to past economic recovery periods, property fundamentals will stabilize, ultimately bringing a substantial volume of capital off the sidelines.

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