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Connecticut's apartment market expected to remain solid moving into 2008

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Moderate job growth, higher mortgage rates on single family homes and tighter lending standards will drive renter demand for multifamily apartment units in the southern and central regions of Connecticut through the first half of 2008. As ARMs adjust upward and mortgage payments become unaffordable, a number of homeowners in Connectucit will return to the rental market, although not in droves as they are expected to in other metros across the country. National foreclosure sales are up 90% this year and are forecast to rise further next year.

Competition for renters has increased in markets where condo/single family investors were most active, but new apartment development remains moderate and vacancy will remain healthy moving into 2008. New supply is forecast to total 92,000 units this year, up from 2006 but still well below the average from 1999 to 2004 of 152,000 units. In the near term, increasing supply of vacant homes and the return of conversion projects to the rental market will put some upward pressure on vacancy, though the net effect of the conversion trend will remain a positive for apartments.

Longer term, demographic trends support a favorable outlook for apartments across the United States. Through 2015, baby boomers' children will enter their prime renting years, with the 20 to 34-year old population expected to grow by 4.8 million.

Effective apartment rents nationwide are up 4.6% from last year and have increased 13% since bottoming in 2003. Rent growth of 4% is expected in 2007 and 2008.

The recent subprime mortgage fallout has had a daunting effect on Connecticut homeowners, an unfortunate trend that will bode well for the multifamily market in the longer term. According to RealtyTrac, mortgage defaults and foreclosures have increased 547% in the New Haven-Milford area, 522% in the Bridgeport-Norwalk-Stamford region and 446% in the Hartford area in the first half of 2007.

Economic fundamentals are keeping the operating performance of New Haven's apartment investment properties stable. In the third quarter, average asking rents increased an impressive 6% for the year to $1,073 and effective rents jumped 5.6% to $1,039. Vacancy in the area has declined 120 basis points on a year-over-year basis to 4%. The construction pipeline has remained moderate as developers in New Haven have brought 162 units on line.

Both local and institutional investors will seek out multifamily properties in New Haven, especially as the housing market continues to soften. The median sales price for all classes of apartment properties reached $73,200 in New Haven County, an increase of 3.4%. Cap rates in New Haven ended the third quarter at 6.8%, a competitive rate compared to national averages.

One of the largest revitalization projects in downtown New Haven is the Gateway Downtown Development Project, a $230 million project involving relocating Gateway Community College and Long Wharf Theatre to a long-vacant downtown area, which includes a hotel and conference center as well as new residential and retail space. Some of the units will be affordable to meet the growing need among residents for non-market-rate housing: At least 20% of the residential units will be rented at 50% of market rate.

In Hartford, multifamily market conditions remain healthy through the third quarter but perhaps not as strong as in New Haven. Average asking rents have increased 2.8% to $942, while effective rents have increased 2.5% to $904 year over year. Vacancy has increased 10 basis points to 4.5%, although relative to other major metros it remains low: below 5%. Developers have delivered 1,196 units this year.

The median sales price has increased 9.5% to $59,800 per unit. Cap rates in Hartford are currently at 7%. As for the investment sales market, investors and developers are acquiring and building their fair share of new multifamily properties.

Developers in Hartford County are moving toward larger projects, with a 320-unit development currently underway, with a projected delivery in early 2008, and three more projects, each over 300 units, are being considered. Of the projects under way, the 320-unit Bentley Grove Apartments in Manchester is the largest. The property is being developed by the Tarragon Corporation and is forecast to be completed in the second quarter of 2008.

Also of note further downstate, Donald Trump and development partners Thomas Rich and Louis Cappelli recently broke ground on Trump Parc Stamford, a $160 million 170-unit high-rise condominium tower in the heart of Stamford's downtown.

Because of healthy supply and demand fundamentals and increased renter demand by displaced homeowners in New Haven and Hartford, south central Connecticut's apartment market is expected to remain solid moving into 2008.

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