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New Haven multifamily assets outperform nation as demand well outweighs current supply

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In spite of the national economic downturn, healthy demand for quality multifamily properties in Connecticut and New Haven County still exists as demand well outweighs current supply. Fundamentals have remained comparatively solid through the recession, relative to other metropolitan areas throughout the United States. As the single family foreclosure crisis continues to impact Connecticut and New England, residents are seeking rentals of both apartment units and to a lesser degree, single family homes. Recent single family home sales trends show that the market is improving slowly, but fundamentals remain weak and unlikely to spark a recovery in the near term. Year over year, the median prices for existing and new homes are down 12.5% and 11.6%, respectively. While the first-time home buyer credit has driven some renters to home ownership, the increase in foreclosures has sparked demand for single family home rentals and multifamily rentals have been the biggest beneficiary.

In addition, limited new multifamily construction is fueling demand for apartments in New Haven and in other Connecticut metropolitan areas. A minimal number of apartments have been completed in the market over the past five years and construction activity continues to decline. Approximately 336 units have been added to the rental stock in the last 12 months, compared with 642 units in the preceding year. So far this year, 281 multifamily rental units in New Haven County have come on line, and no further development plans are in the works. Last year. 511 units came online. All of the units put into service in 2009 are located in Fairfield County, including 146 residences at the Glenview House complex in Stamford.

There are approximately 3,800 units planned in the counties - 2,000 units in Fairfield and 1,800 apartments in New Haven (500 anticipated in 2010). Meanwhile, permitting has slowed 6% in the past year to 1,184 units, primarily as a result of a 55% drop in New Haven County.

Occupancy in New Haven and Fairfield counties continues to remain high, running contrary to the performance of other markets across the country. Based on third-quarter estimates, vacancy is in the 5% range. In the second quarter of 2009, vacancy hit a low of 4.8%. Demonstrating demand for quality, well-positioned multifamily assets, vacancy for Class A properties in New Haven County declined 1.6% to 2.7% at the end of the second quarter, a notably tight figure in the midst of the current economic downturn.

Turning to the investment sales market, transaction velocity, prices per s/f and prices per unit have dropped significantly since 2008, but deal flow is still occurring, especially for smaller investment properties. Private investors who can secure financing from local and regional banks are dominating the investment sales activity throughout Connecticut. Nonetheless, the downturn has taken its toll on pricing. Through the third quarter of 2009, a total of 1,722 units traded for $134.175 million, compared to year-ending 2008 when 5,532 units traded for $758.785 million. Prices per s/f have dropped to approximately $80 in 2009 from about $140 in 2008 and average price per unit through Q3 2009 statewide is $78,000 as compared to $139,000 for all of 2008.

Operating fundamentals in most other regions of the country continue to erode. Connecticut multifamily fundamentals, however, have held up well through the recession and are anticipated to strengthen further in the 1st half of 2010. Across the state, demand still heavily outweighs supply and there continues to be a shortage of quality, well-maintained apartment product on the market. As a result, it's an excellent time to sell or invest in Connecticut apartment assets.

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