

# ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

Hartford Metro Area

Second Quarter 2010

## JOB GROWTH TO PUSH RENTS HIGHER THIS YEAR

Although the recovery has been slow to start in the Hartford metro area, economic headwinds have begun to diminish, and payroll growth should resume by year end. In the first quarter, local employers shed more than 3,000 jobs, weighed down by the manufacturing and professional and business services industries, which have eliminated a total of 7,100 positions in the past year. Nevertheless, gains have been recorded in the leisure and hospitality and education and health services sectors, while trade, transportation and utility employers will likely begin hiring again in the second quarter. The education and health services and trade, transportation and utilities industries comprise more than one-third of all jobs in the metro, and growth in these segments will eventually fuel expansion in other sectors. The steady economy has already affected apartment operations, as vacancy was a relatively tight 5.7 percent in the first quarter and should inch down further as the year progresses. Additionally, asking and effective rents, both of which fell 0.4 percent last year, will increase by more than 1 percent in 2010. Renter demand will remain strongest in the North/West Hartford submarket, where healthy demand for top-tier units and a metro-leading median household income of \$106,560 annually will continue to suppress vacancy rises and accelerate rent growth.

Economic uncertainty and tight capital markets have limited multifamily investment activity in the Hartford market, but resilient pricing levels also have constrained deal flow. Sales prices have held steady over the past two years, as owners have been reluctant to offer discounts in light of modest rent declines. Nevertheless, prices are expected to dip in the coming quarters due to previous revenue decreases and soft investor demand. Cap rate rises should be modest among Class A assets, however, where operating fundamentals have begun to improve quickly since the start of 2010.

## 2010 ANNUAL APARTMENT FORECAST



**Employment:** Hartford employers will add 3,400 jobs to head counts in 2010, growth of 0.5 percent. Last year, 4,600 positions were eliminated.



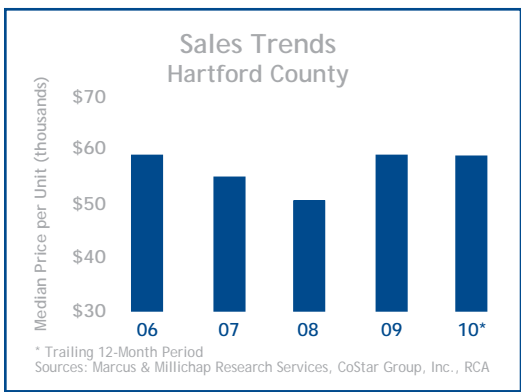
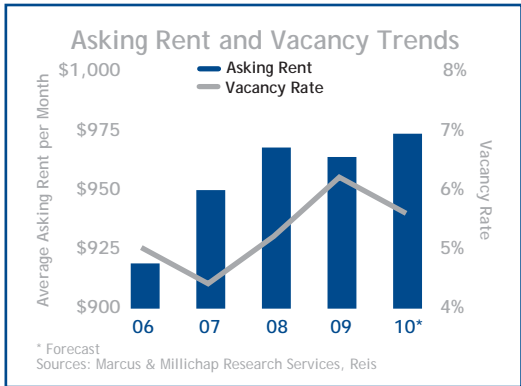
**Construction:** Deliveries made during the second and third quarters will lift annual apartment completions to 225 units this year. In 2009, developers completed 70 units.



**Vacancy:** Resumed hiring will bolster renter demand in the Hartford metro. In 2010, vacancy will decline 60 basis points to 5.6 percent, after surging 100 basis points last year.



**Rents:** Asking rents will advance 1 percent this year to \$973 per month, while effective rents will gain 1.1 percent to \$931 per month. Asking and effective rents slipped 0.4 percent and 0.2 percent, respectively, in 2009.



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## CONSTRUCTION

- ◆ Builders have slowed the pace of new construction in response to economic headwinds. In the 12-month period ending in the first quarter, 70 market-rate units were added to local apartment inventory, following the delivery of 390 units during the previous year.
- ◆ Five major projects are under way in the metro, comprising nearly 500 market-rate units. Approximately 1,100 units have been planned, although tight debt markets and the current economic climate will likely dissuade some developers.
- ◆ The largest project under construction is the 220-unit Mansions at Canyon Ridge in East Windsor, due in the first half of 2011. Rents at the complex will range from \$1,180 per month to \$1,600 per month; the average asking rent for Class A properties in the North/West Hartford submarket is currently \$1,200 per month.
- ◆ **Outlook:** Deliveries made during the second and third quarters will lift annual apartment completions to 225 units this year. In 2009, developers completed 70 units.

## VACANCY AND RENTS

- ◆ During the first quarter, metrowide apartment vacancy averaged 5.7 percent, down 10 basis points from six months earlier. In the previous two quarters, the vacancy rate rose 50 basis points.
- ◆ Asking rents have remained at \$968 per month for the past year, though effective rents have dipped 0.2 percent to \$922 per month. Asking and effective rents gained 0.9 percent and 0.7 percent, respectively, in the previous 12-month period.
- ◆ Modest declines in occupancy levels and effective rents have underpinned an average revenue drop of 0.6 percent over the last year.
- ◆ **Outlook:** This year, vacancy will improve 60 basis points to 5.6 percent, after surging 100 basis points in 2009. Asking rents will advance 1 percent to \$973 per month, while effective rents will rise 1.1 percent to \$931 month. Asking and effective rents slipped 0.4 percent and 0.2 percent, respectively, last year.

## SALES TRENDS

- ◆ Falling revenues have led to a 44 percent decline in deal flow since the first quarter of 2009. In the previous 24-month stretch, velocity was flat.
- ◆ Over the past two years, the median price has remained in the \$59,000 per unit range, after increasing 17 percent during the prior 12 months.
- ◆ Although the median price has been stable, cap rates continue to rise due to investors' rising risk premiums. In the last year, cap rates have increased an average of 40 basis points to the low-8 percent range. Initial yields for top-quality properties, however, can start as low as 6.75 percent.
- ◆ **Outlook:** Rents and occupancy rates will remain challenged in Tolland County, despite growing stability at the metrowide level. Consequently, aggressive investors with management expertise will likely find discounted value-add opportunities in the area throughout 2010.