

Multifamily Metro Outlook:

Hartford - Q2 2023

Overview:

- Hartford's economy is in the same place it was to end the prior year – closely tracking the rest of the nation, which is the best possible place it can be all things considered. Employment contracted -1.5% annually in second quarter ending 2023, the third consecutive quarter of declines, though reduction in the labor force allowed the unemployment rate to decline 38 bps from last year's levels to 3.89% - which still exceeds the national average.
- Surging leisure and hospitality payrolls have been driving recent gains in employment, allowing payroll wages to advance more than 1.50% over last year's levels. Although this lags the growth seen across much of the country, the median household income in the metro increased nearly 3.0% over the past year to just under \$88,500, well above the national median household income.
- Even with interest rates increasing at an unprecedented pace, Hartford offers considerably more affordability compared to most housing markets across the country – though the cost of housing is accelerating, especially for single-family properties. Since the beginning of 2022, the estimated P&I cost in Hartford has gone from being on par with asking rents to almost 50% more expensive, making multifamily the more affordable option in the metro.

Market Strengths:

- Aerospace manufacturing is an important source of high-wage employment in Hartford, with the second top employer in the metro coming in the form of jet engine manufacturer, Pratt and Whitney. Aerospace manufacturing continues to experience growth with the increase in flight demand, after securing a major contract to supply upgraded F-35 Joint Strike Fighter engines to the U.S. military in the new defense budget.

Market Weaknesses:

- A broader slowdown in manufacturing limits upside in the near term. Employers continue to face skilled worker shortages, with more than two-thirds of manufacturers reporting the issue to be a major hurdle to growth. With demand for employees outstripping supply, factories will be forced to provide higher pay raises, benefiting workers but increasing costs and weighing on the industry's growth prospects.

Development:

- After completing less than 150 units to end the prior year, the pace of deliveries in Hartford has exploded with 1,375 coming online in first-half ending 2023 – accounting for more than three-quarters of the supply delivered to the metro in the past year. This jump in activity doesn't appear to be anomalous either, at least not in the short-term; the development pipeline has more than tripled from the end of last year to just over 3,500 units – the highest level seen since at least 2006.
- Development in Hartford's single-family housing market is moving along at a tepid pace. Slightly under 800 single-family units were completed in the second quarter, pushing the sales inventory in the metro to slightly over 6,000 properties; though the number of total active listings has contracted by more than -40.0% over the past year. While an additional 665 construction permits were issued for single-family properties, construction activity still lags the historical average.

Multifamily Outlook:

- Hartford's apartment market has always been largely sensitive to small changes in fundamentals. So, it should hardly come as a surprise that marginal population growth led to the vacancy rate dropping 50 bps from last quarter's levels to 3.75% in second quarter ending 2023. While this remains below the national average, it still exceeds last year's levels by 50 bps. However, with another 1,500 units expected to come online in the next year, it would not be surprising to see performance pendulum swing back towards easing. Especially considering the lion's share of development continues to take place in West Hartford, which has already seen close of a third of the supply that has come online since 2017.

Economy:

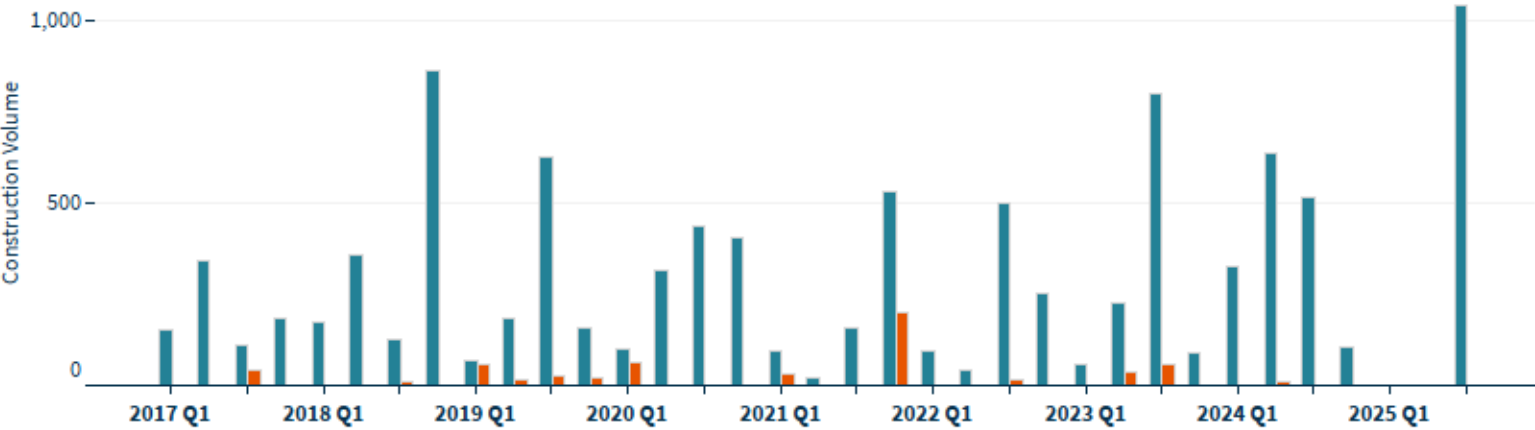
- Hartford's economy is continuing to make progress, but it is expected that growth will trail the rest of the region, at least in the near-term. The public sector, usually a bastion for economic performance is facing a lackluster near-term outlook amid the state's volatile revenues and the looming threat of a recession. Further, factories will struggle with elevated costs and labor shortages. Longer term, inconsistent population growth will only serve as a deterrent to economic growth.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

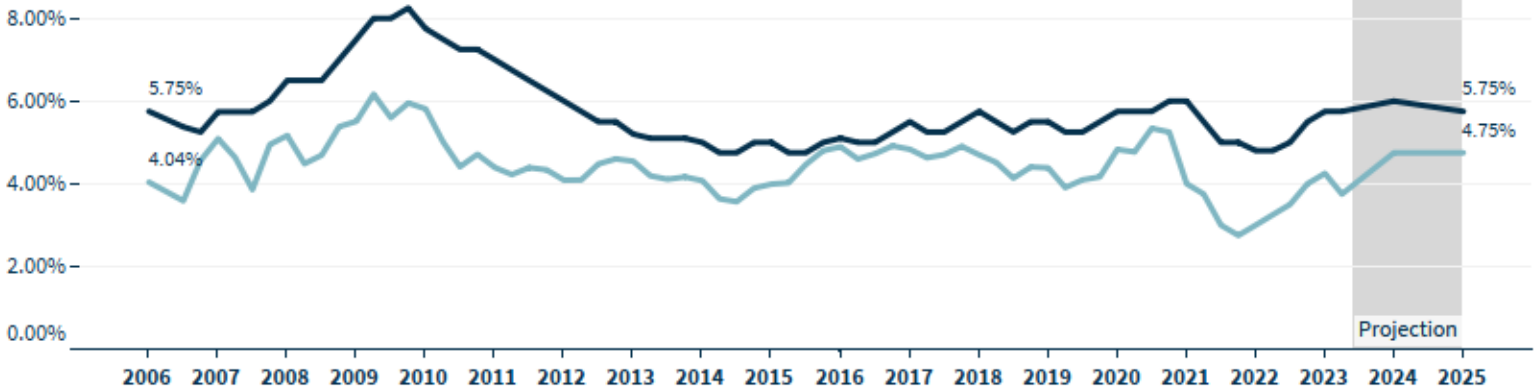
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Hartford | National

Q2 2023 Vacancy Rate:

3.75%



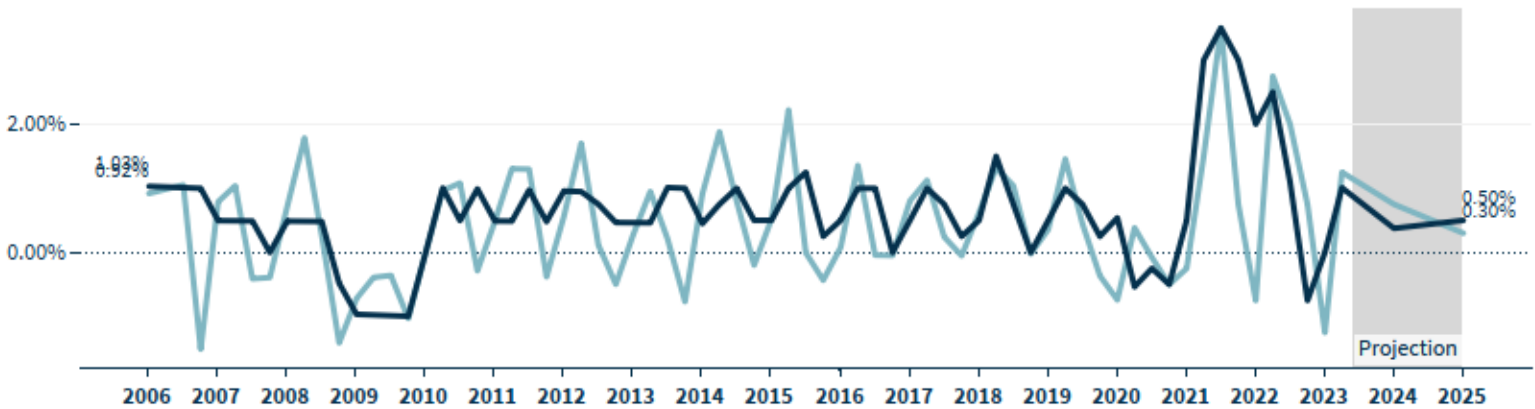
Projection

Asking Rent Growth

Hartford | National

Q2 2023 Asking Rent:

\$1,580

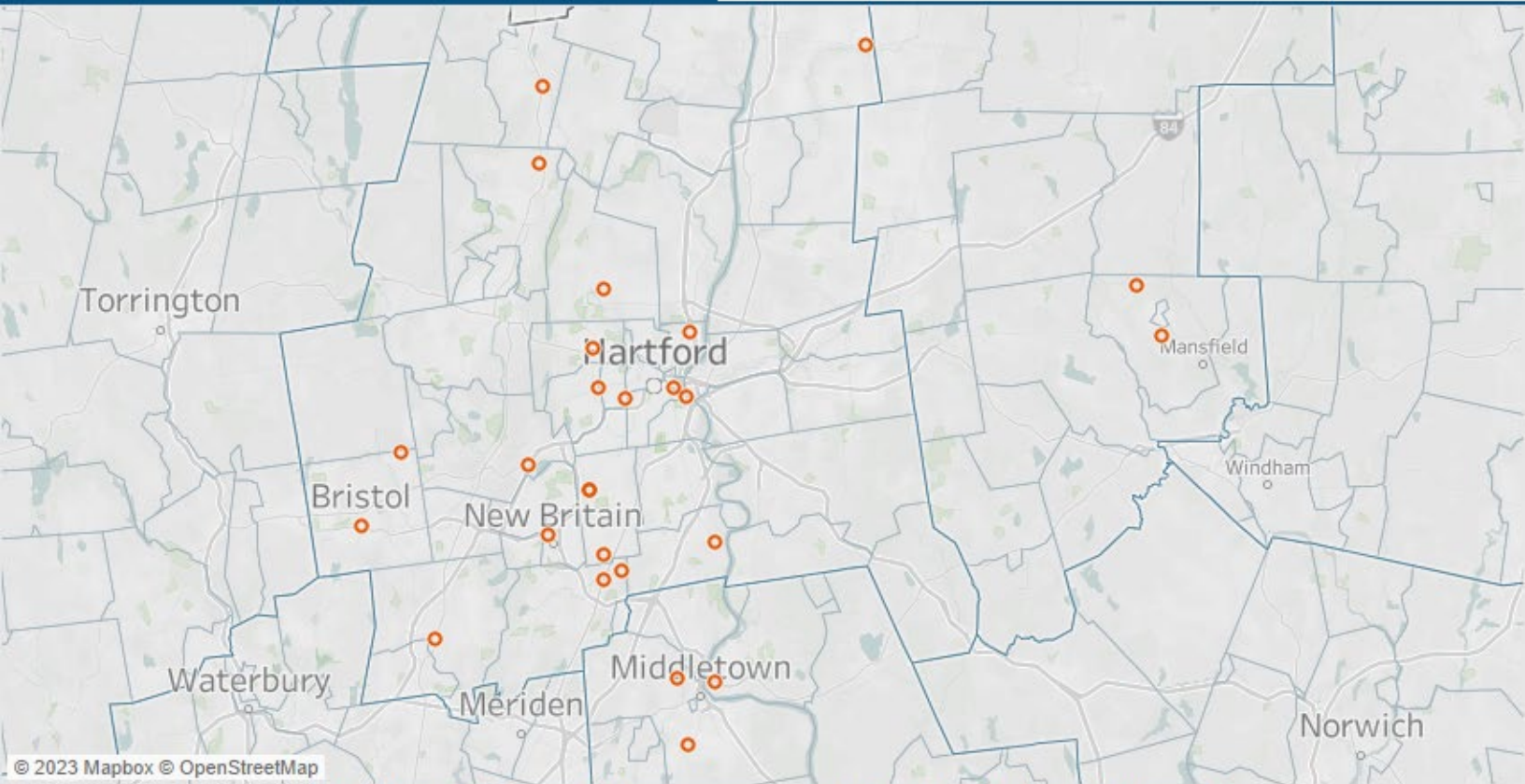


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Central Hartford	3	223
New Britain/Bristol	9	859
Northeast Hartford	3	480
Southeast Hartford/Middlesex County	4	860
West Hartford	7	1,088
Grand Total	26	3,510

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Sources Used

- Axiometrics
- U.S. Bureau of Labor Statistics
- CBRE-Econometric Advisors
- CoStar
- Dodge Data and Analytics
- Fannie Mae
- Moody's Analytics
- MSCI Real Assets
- RealPage
- Redfin
- REIS
- Yardi
- Zillow

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