



Overview of the 2017 Hudson Valley apartment market - by Brian Heine

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To create a more urban downtown and attract new residents and businesses, New Rochelle in Westchester County, has implemented a new downtown zoning plan and large-scale development initiative to capitalize on its downtown's direct transit access to New York City. RXR Realty, one of the designated master developers is finishing 587 Main, a mixed use 28-story building with 280 apartments. An additional 28-story apartment building is also planned as part of the 10 year build out. As rental prices in Manhattan continue to rise, developers and investors are finding opportunities in those nearby communities within commuting distance. Transit-oriented developments are also underway in Yonkers, RXR along with rising development is building the \$197 million Larkin Sq. near the Metro North station, 437 luxury apartments in two 25- and 17-story buildings. The Yonkers IDA approved a 20-year PILOT abatement. In Elmsford, near White Plains, Greystar has opened The Apex at 290 Rentals, an 81-unit, four-story suburban garden apartment complex costing \$29 million. A typical two-bedroom, two-bath with 1,220 s/f and rents for \$3,295 - \$3,345.

Investors in these markets were also active through the past year. DSF Group purchased the 412 unit 25-story La Rochelle in New Rochelle for \$148.5 million, a substantial increase as compared to the 2010 sale of the building for \$107.5 million, a 1,149 s/f two-bedroom rents for \$2,489 - \$2,549. In early 2017, 33 William St., a 117-unit seven-story double-wing red brick apartment building in the Fleetwood section of Mount Vernon sold for \$27.5 million or \$235,000 per unit.

All the counties of the Hudson Valley continue to show a tight rental market for tenants. The average 2017 HUD fair market rent for a two-bedroom apartment in the Hudson Valley, together with the counties of Dutchess, Westchester, Rockland, Ulster, Putnam, and Orange, is \$1,443 per month, up 3.8% from 2016. The 2015 Dutchess County Rental Housing Survey, typical of the four counties north of Westchester and Rockland counties, reported a 1.8% vacancy rate for market rate apartment complexes, down from 2.3% in 2014 and average two-bedroom monthly apartment rents of \$1,379, up from \$1,336 in 2014. They note the vacancy rate is the lowest it has been since 2003, and vacancy rates this far below the industry standard of 5% severely restrict tenant options and give owners leverage with future rent increases. A 5% vacancy rate is a sign of a rental market in balance between the interests of tenants and owners. Avalon Bay's suburban class A New York portfolio, mostly in Westchester County, increased the average rental rate 2.5% in 2016 over 2015, and the full year 2016 economic occupancy rate 0.3% to 95.6%.

Avalon Bay, a publicly listed Real Estate Investment Trust (REIT), is one of the most active market

players in Westchester and Rockland counties. They recently completed Avalon Green III in Elmsford in Westchester, an additional 68 apartments at the location costing \$22.3 million or a construction cost of \$287 per s/f or \$327,941 per unit. In Rockland County, Avalon Bay sold the 504 unit Eaves Nanuet, originally built as the Avalon Gardens Apartments in 1998, for \$147 million or \$291,666 per unit. Rents range from \$1,690 to \$2,645 and occupancy was 97% at closing. REITs, with specific investment returns to meet, are always in the market as buyers, sellers, or developers in an effort to keep their capital deployed where it earns the highest rate. They identify the best performing U.S. markets for growth and target specific submarkets. The Hudson Valley remains a key market for any investment strategy focused on the acquisition of high performing multifamily assets.

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