



## **2018 Hudson Valley apartment market: Counties show favorable conditions for investment - by Brian Heine**

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All the counties of the Hudson Valley show a favorable rental market for investment. The average 2017 HUD fair market rent for a two-bedroom apartment in the Hudson Valley, together the counties of Dutchess, Westchester, Rockland, Ulster, Putnam, and Orange, is \$1,510 per month, up 4.4% from 2016. The 2017 Ulster County Rental Housing survey reports average two-bedroom rents of \$1,143, up 5.9% over 2016, with an overall vacancy rate of 2.65% versus 2.36% for 2016. The 2016 Dutchess County Rental Housing Survey reported a 2.0% vacancy rate for market rate apartment complexes, up from 1.8% in 2015, but near a 20 year low, and average two bedroom monthly apartment rents of \$1,429, up from \$1,379 in 2015. These two surveys are representative of the rental conditions in the counties north of Westchester and Rockland and even with the year to year fluctuations these results are indicative of a very tight rental market for tenants that overwhelmingly favors property owners. Avalon Bay's suburban class A New York portfolio, mostly in Westchester County, increased the average rental rate 1.8% to \$3,041 in 2017 over 2016, and the full year 2017 economic occupancy rate 0.2% to 95.7%.

New development has increased in response to these favorable market conditions with rents that can absorb the cost of new construction. The Real Deal reports near 1,000 new multifamily permits in Westchester County in each of 2016 and 2017 totaling more than the previous three years combined. The Robert Martin Company has completed the 100-unit Elm in Elmsford, a five-story suburban mid-rise; a 1,176 s/f two-bedroom rents for \$3,100 or \$2.64 per s/f. David Mann developed the 50-unit mid-rise Light House in Port Chester where an 800 s/f one-bedroom rents for \$2,550 or \$3.19 per s/f. National developer Toll Brothers Apartment Living, a newly formed division of the prominent home builder to build apartments in select markets, has started construction of Caraway in Harrison on the site of a former office park. 10% of the planned 421 apartments will be set aside as affordable housing.

Avanath Capital Management of California paid \$19.3 million or \$124,800 per unit in 2017 for Grand Pointe Park, a 156-unit suburban garden apartment complex in Poughkeepsie in Dutchess County. Financed with the Low Income Housing Tax Credit (LIHTC) program rents for some of the tenants are limited for people earning less than 60% of the areas medium income, a 1,021 s/f two-bedroom rents for \$1,570. Avanath targets multifamily housing with affordable rents in and around high rent high demand markets such as the New York City area and surrounding counties. A \$1,500 rent is 25% of the \$72,000 medium income in Dutchess County, meaning that half the county's population can qualify at the \$1,500 rate, and at sale occupancy was reported at 98%.

REIT Equity Residential sold the 300-unit Talleyrand Apartments, a suburban garden apartment complex, in Tarrytown in Westchester County for \$91 million or \$303,000 per unit. An 828 s/f two-bedroom rents for \$2,265 or \$2.74 per s/f. Their total investment was \$68 million including both the original purchase price of \$61 million in 2002 and capital improvements over the past 16 years. The gross proceeds of \$23 million represent 38% on their original investment. In Yonkers, 490 South Broadway, a 22-unit six story brick elevator building, sold for \$5.5 million at a 6.7% capitalization rate in late 2017. Apartment cap rates remain at all-time lows, unaffected by the Federal Reserve's recent increases in short term interest rates as the gap between mortgage interest rates and cap rates compresses mirroring the narrow gap between two-year and ten-year treasury notes. Future increases will eventually push mortgage rates higher and correspondingly capitalization rates.

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