



## Commentary on the 2012 apartment market

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The fundamental shift occurring in the financing of the single family housing market is altering the dynamics of the multifamily rental market; rents in the Hudson Valley apartment are rising steadily. Using the published results of REIT Avalon Bay's 2000 unit Westchester portfolio as a bellwether for the class A market, the average monthly rent per s/f of their portfolio increased to \$2.29 in 2011 from \$2.05 in 2010. This 12% increase is substantially above any annual rent growth in recent years and was achieved with a consistent occupancy rate of 96%. Rent growth at such levels without a corresponding increase in vacancy underscores the strong underlying tenant demand. REIT's use real time revenue management software to optimally adjust rents quickly as apartments are leased and vacated. Class A units are most prevalent in the Westchester County markets, offering the highest finish levels and amenities in the market. The Avalon Apartments in Bronxville offer two-bedroom apartments starting at \$4,630 per month.

The inventory in the other counties of the Hudson Valley are mostly class B complexes and the annual fair market rent reports published by HUD give a better read on this market class. Two-bedroom fair market rents for 2012 for the counties of the Hudson Valley are: Westchester \$1,580; Rockland \$1,424; Orange \$1,189; Putnam \$1,424; Dutchess \$1,189; and Ulster \$1,098; as a whole a 3.1% increase over 2011. HUD uses a number of factors in calculating their fair market rents but the figures are similar to a median rent for market rate units, they don't include vacancy rates.

REIS, a N.Y. research firm, reports Westchester County as the 5th tightest rental market in the nation with a 3.5% vacancy rate. The Ulster and Dutchess County planning departments also conduct apartment rental surveys, forms are sent to owners and managers and the results are tabulated from those that are returned. Using these results as representative for the region; Ulster County shows a 2010 (last year unavailable) vacancy rate of 3.52% versus 3.61% in 2009, and Dutchess County shows a 3.4% vacancy rate in 2010 versus 2009. Reasons reported in the Dutchess County report include movement of homeowners into the rental market due to foreclosure, inability of some renters to purchase due to tight credit, and incentives, such as a free month's rent, being offered by some of the complexes. Vacancy rates for subsidized housing are essentially zero; all 27 rental complexes in Dutchess County set aside strictly for households within income limits report waiting lists. The vacancy rate for subsidized housing in Ulster County is less than 1% (0.58%).

Also reported in the county surveys; average market two bedroom rents in Ulster increased by 2.9% and one bedroom rents increased by 4.5%; average two bedroom rents in Dutchess declined by 1.1% and one bedroom rents declined 1.4%. Dutchess County reports no new apartments added to the existing inventory in 2010 versus 225 new apartments constructed in 2009. Analyzing rent and vacancy data together is important to owners and managers. Market vacancy rates significantly

below 5% are indicative of a landlord friendly market. In this environment managers must move any below market units up to market rates (exclusive of rent control or stabilized apartments in Westchester County) and take this opportunity to push existing rents higher where their own vacancy experience is consistently below 5%.

Rent growth has outpaced inflation in recent years; the Ulster County study shows two-bedroom rents increasing 40.8% from 2000 to 2010 as compared to the 26.8% inflation rate for this period. With expense increases mostly tied to the inflation rate these real increases in rent, and hence NOI, is what drives values higher. No short term change in Federal Reserve interest rate policy is expected and consequently buyers will see higher prices and lower returns.

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