



Overview of the 2019 Hudson Valley apartment market - by Brian Heine

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In the Capital Region developers are turning obsolete industrial buildings and long vacant historic properties in walkable neighborhoods near the employment centers in the central business districts of Albany, Troy, and Schenectady into luxury loft apartment buildings. With the heavy concentration of public employees the economy here and job markets are doing well. Redburn Development Partners is spending \$78 million to renovate seven properties in downtown Albany into mixed-use developments including 350 apartments and additional commercial and retail space. There is some concern of overbuilding in urban markets with the number of new developments and the accelerated pace of construction over the past few years but there had previously been no new apartment construction in these downtowns for the previous 20 years with developers focused on suburban markets. In downtown Albany the Gateway Apartments, a four story mixed use loft apartment building and first floor restaurant sold for \$2.1 million. The 13 apartments rent for an average \$1,245 per month or \$1.54 per s/f per month. This is the first of the new downtown loft renovations to reach the resale market; the incentive for future projects is dependent on the investor's ability to recover their costs and generate a profit on the invested funds, and reflecting the demand for such buildings the capitalization rate was 6.5%.

In New Rochelle in Westchester County, the Halstead New Rochelle Metro North, a 588-unit 40-story high-rise class A apartment building built in 2007, sold for \$259 million in late 2018. The seller, DSF Group, bought the property for \$210 million in 2013. The gross proceeds of \$49 million represent 23% on their original investment. The buyer, Harbor Group, buys properties with upside, and even at this price level of \$440,000 per unit plans to invest \$5.5 million on interior apartment upgrades. The property was 95.6% occupied at closing, a three-bedroom rents for \$3,471 or \$2.28 per s/f, per month. In comparison, at the end of 2018 REIT Avalon Bay's suburban New York City class A institutional market 3,233 unit portfolio reported 96.4% economic occupancy with an average rent of \$3,126, a 2.7% increase over 2017. There is little evidence of any slowdown in the apartment market here. Avalon recently completed the Avalon Somers in northern Westchester County, 152 apartments for \$46 million or a construction cost of \$256 per s/f or \$303,000 per unit, and is planning three buildings in Yonkers; 590 apartments costing \$188 million.

The 2018 Ulster County Rental Housing survey reported average two-bedroom rents of \$1,198, up 4.8% over 2017, with an overall county vacancy rate of 3.16% versus 2.65% for 2017. The 2018 Dutchess County Rental Housing Survey reported a 1.5% county vacancy rate for market rate apartment complexes, the lowest rate since 2000, down from 2.4% in 2017, and average two bedroom monthly apartment rents of \$1,539, up 3.8% from \$1,482 in 2017. These are market

vacancies and include the number of apartments ready to rent and do not include existing apartments that are not in rentable condition that are included in an economic vacancy calculation and can be much higher. These surveys carried out by county employees can be considered representative of the health of the class B suburban garden apartment market north of Westchester and Rockland counties along the Hudson River to Albany; vacancy rates have been consistently below 5% for the last ten years aided by little new construction to add to the inventory. These smaller markets, with a diverse supply of apartment complex sizes, ages, and prices, fall under the radar of institutional interest but the rent growth and high occupancy are attractive to local investors and developers.

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