



2023 Hudson Valley apartment market - by Brian Heine

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Rent control is coming to the Hudson Valley apartment market. Socialists in the New York state legislature are pushing to pass statewide rent control later this year in the form of the Good Cause Eviction bill. The bill would make it near impossible for building owners to evict tenants for almost any reason and add caps to rent increases for market rate apartments. There is a long history of the effects of rent control on the multifamily housing market; expect the number of apartments for rent to contract, new market apartment construction to vanish, and rents to rise. The demand from tenants is there, rent control will significantly reduce competition, this is a supply side issue. The Real Estate Board of New York and other sources estimate the city of New York will need an additional 500,000+ new homes by 2033. This will never happen in the current environment; the unmet demand will look elsewhere including the Hudson Valley. Freezing rents with unmet demand to protect existing tenants is going to significantly reduce the supply of new apartments over time. Builders will not build in rent control markets and available vacancies will disappear.

Building owners and managers should prepare now ahead of the legislation; research the market in detail to determine where the actual market rent is, and raise rents to this level. The last three years have seen significant increases in asking rents, the reports issued by the various rental websites track the asking rents for vacant apartments posted to their sites, but actual building rent rolls will show there are many apartments that haven't turned over recently at far lower levels. Inflation alone totaled 18% the last two and a half years; you need to have increased your rent roll at least this amount to stay even. Raising rents is not popular but controlling rents isn't designed to benefit you and you have to protect your property rights. In Oregon some rents were doubled as the governor signed a statewide rent control bill. Once rent control is enacted you won't be in a position to do anything about it.

The apartment industry must adapt to this new intrusive government intervention in how they run their private businesses and how they exercise their rights as private property owners. Landlords for years have charged a single all-inclusive monthly rent to tenants because it's easy and simplifies the accounting and collection process. Other means are going to be necessary to maintain collections in response to the inevitable increases in property taxes, insurance, and maintenance costs. Higher rents are the only solution for higher costs. A tenant's rent can include garage spaces, storage space, utility costs, laundry facilities, etc., all items that the tenant is probably not paying the full cost for, and that can be billed separately and increased as needed and not be subject to rent control limitations. Charge for any revenue stream you can create; separate leases or contracts for each may be needed. Move towards providing each tenant with a monthly statement, there is management software available that provides a monthly itemized list for the tenant of the rent and the cost of each associated additional line item.

Keeping up with recurring annual operating expenses is not the only consideration, there is no provision to recover the costs of renovating and remodeling vacant apartments with higher rents, especially after a long-term tenant moves out. Additional capital will need to be injected into the property, reducing the return, as there's no way to increase the return with rent increases to offset the increase in equity. The alternative is to leave the unit vacant; some owners will choose not to

add additional equity without a commensurate return, and over time this can significantly reduce the available supply of apartments for rent.

Harbor Group paid \$306 million for the 617-unit Avalon Green garden apartment complex in Elmsford in Westchester County in the largest sale of 2022. Seller AvalonBay reported a gain on disposition of \$196 million.

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