

2007 Hudson Valley apartment market report: Continued interest from real estate investors

bh Brian Heine



Licensed Real Estate Broker

The Hudson Valley rental apartment market, stretching from Albany to Westchester County along the Hudson River, continues to attract investment interest from the entire investment real estate universe attracted by high occupancy, solid rent growth and price appreciation. Market demographics are all moving in the right direction, Albany benefits from the large concentration of state government offices and the counties near New York City enjoy

population growth coupled with the metropolitan area's expanding economy, keeping the resale market at record levels.

The recently completed 232-unit Mansions at Delmar complex outside Albany sold for near \$108,000 per apartment in 2006, although other per unit sales prices in this mostly class B market averaged closer to \$50,000. Prices increase substantially closer to the New York City metropolitan area: Haveland Estates LLC of Stamford, Conn. paid \$78 million or \$300,000 per unit for the 260-unit Clayton Park Apartments in White Plains, a class A mid-rise property built in 2003. The Dell, a smaller complex also in White Plains, sold for \$238,000 per unit; various media report market cap rates to be in the 5% to 7% range.

With cap rates at or below the cost of capital (long term mortgage rates) buyers are counting on continuing

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low vacancy rates to drive rents higher and New York's difficult to navigate development process to restrict competition. Factoring in the value of higher rents in future years is used to justify the current pricing; expecting returns will recover as the income is increased. Other tactics include purchasing

for condominium conversion and reselling quickly for profit and the common use of interest only mortgages which buffers the cash flow in the first few years of ownership until rents have been raised.

The private nature of apartment real estate ownership makes access to detailed operating information hard to come by. Rental performance here can be tracked by examining the information provided by two publicly listed real estate investment trusts, REITs, active in the market. Home Properties buys and improves existing brick suburban garden apartment complexes in the area south of Albany. Avalon Bay Communities builds from the ground up new class A mid to high-rise apartment buildings in Westchester County.

Home Properties Albany/Hudson

Valley 908 unit class-B portfolio reported 94% occupancy in 2006 with rents of \$1.39 per s/f and rent growth of 2.6%, although the rent growth is below the 4.2% of 2005 and the 10%+ of several years ago. Avalon Bay's Westchester County 1,358 unit class A portfolio ran at a 3% vacancy in 2006 with 4.8% rent growth, rents averaged \$2.11 with a high of \$3.07 in the portfolio. The results of these public companies reflect aggressive management and state of the art operating procedures with the aim of maximizing their portfolios' net income and serve as a good barometer for other area property owners seeking a comparison of their own complexes with the industry's top benchmarks.

Dutchess County's Department of Planning and Development conducts a survey each year and found the apartment vacancy rate at 2.8% in 2006 and 2.5% in 2005. Vacancy rates consistently below 5% will drive new construction. The "downtowns" of Westchester County—White Plains, Yonkers, and New Rochelle—are attracting tenants priced out of the Manhattan market and with vacancy rates far below 5% in the New York City suburbs Avalon Bay among others is building 393 apartments in White Plains and 588 in New Rochelle.

Every multifamily REIT and institutional investor is now looking to enter this market; this demand going forward is expected to drive prices even higher from their current levels. Occupancy levels will remain in the low single digits as high single family home prices and limited new development restrict housing choices for tenants and pressure rents.

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F O R S A L E

68 unit brick garden apartment complex

Excellent condition, fully occupied

Metropolitan Albany

\$3,350,000

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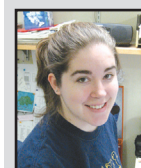
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