

## Upstate

# Commentary on the 2013 Hudson Valley apt. market

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Strong economic performance continues to support the Hudson Valley multifamily market. The Hudson Valley includes the counties south along the Hudson River from Albany and includes the New York City suburban counties of Westchester and Rockland. For the 12-month period ending in July, private sector employment in the Hudson Valley Region increased by 10,600 or 1.4% according to the New York State Department of Labor. The 2010 US census shows a population increase of 112,690 or 4.9% over the 2000 count. New employment and population increases are the major factors in rent growth; landlords boost rents in response to the additional competition for existing vacant apartments. These results alone are not overwhelming compared to high growth areas in other parts of the country but in the mature and difficult to build environment of New York State's Hudson Valley the effect has been a tightening of the rental market in 2013 over 2012.

Publicly traded AvalonBay's 2,000-unit class A Westchester portfolio increased the average monthly rent per s/f across their portfolio to \$2.39 in 2012 from \$2.29 in 2011, a 4.5% increase. Occupancy increased to 97% from 96%. class A units are most prevalent in the Westchester County markets and offer the highest finish levels and amenities. The top end of the market is doing very well. This near 5% rent growth coupled with only a 3% vacancy rate, well below the industry benchmark of 5% vacancy for a balanced market, are very good operating results and leave room for further rent increases in 2013.

The remainder of the market in the other counties of the Hudson Valley is mostly class B complexes. HUD two-bedroom fair market rents for 2013 for the counties of the Hudson Valley are; Westchester \$1,483, Rockland \$1,474, Orange \$1,211, Putnam \$1,474, Dutchess \$1,211, and Ulster \$1,197, as a whole a 1.8% increase over 2012. HUD fair market rents are similar to a median rent for market rate units. REIS, a New York research firm, shows vacancy for Westchester County at 3.1% at the end of 2012. The 2011 Dutchess County Rental Housing Survey (last year available) shows apartment vacancy at 3.2% as opposed to 3.4% in 2010, the vacancy rate for tax credit developments at 1.5%, and a vacancy rate of zero for subsidized units as all surveyed locations have a waiting list. These results are consistent with those of recent

years and it cannot be overestimated the positive effect that small year after year increases in income coupled with low vacancy rates have on the return experienced by leveraged multifamily real estate investments and underpins the reasoning both lenders and investors favor the sector; long term returns in the multifamily industry have been quite generous.

Sales in 2012 include The Landing on Mohegan Lake, 207 apartments sold for \$29 million or \$141,000 per unit. A 1,105 s/f two-bedroom starts at \$1,994 (\$1.80). The Solomon organization of New Jersey purchased the 75-unit Audubon Manor in Ossining for \$10.3 million or \$137,000 per apartment. The two-story, four building suburban garden complex was fully occupied

at sale. A 1,000 s/f two-bedroom starts at \$1,799 (\$1.79). Both properties are in northern Westchester County and are representative of the pricing level of class B complexes; in recent years class A sales have been in \$300,000 per unit range.

It's still a seller's market for apartment complexes, owners with few investment alternatives offering better returns are holding on to their properties. Commercial mortgage rates are particularly sensitive to changes in the ten year Treasury bond yield and rates have begun rising recently. Expect market activity to increase as rates rise.

**Brian Heine is a licensed real estate broker in New York State.**



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