Spotlight / Capital Region

2011 Hudson Valley apartment market commentary:

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Reflecting nationwide interest in the multifamily sector demand for institutional grade apartment properties increased in the Hudson Valley market last year. This barrier-to-entry market features a dense suburban population, high household income, and excellent public transportation with easy access to retail and entertainment in New York City. With few available sites, difficult municipal approvals, and high construction costs investors seek these markets anticipating better returns as compared to other areas where new construction is easier and the resulting oversupply and new competition pressures rents and occupancies. No overbuilding occurred in Rockland or Westchester Counties in the last real estate cycle.

A Chicago-based institutional advisor paid $151 million or $300,000 per unit for Bank Street Commons, a 502-unit class A high rise in White Plains in Westchester County, from developer LCOR. The property consists of two 21 and 22 story towers and was finished in 2004. The developer had planned an additional $250 million development on neighboring parcels but was blocked by financing problems and the bankruptcy of partner Lehman Brothers. Rents range from $1,800 to $3,000, and in an article in the New York Times the building management quoted occupancy at 94% and yearly rent growth at 4%. Also in Westchester Phoenix Realty Group (PRG) paid $28 million or $109,000 per apartment for the 256-unit Beacon Hill Gardens, a suburban garden apartment complex in Dobbs Ferry. Purchased together with Property Resources Corp., a New York apartment property developer and manager, major upgrades are planned to the class B complex. PRG purchased the property for one of its institutional real estate funds.

Attractive to these investors is the wide spread between the monthly rent payment and mortgage payment in this market; with median home prices in Westchester near $550,000 the spread is over $500. These housing economics produce long term renters and high occupancies. Tenants not only have to overcome the higher monthly mortgage payment but also accumulate down payments of up to 25% of the home price. Leasing statistics bear this out; HUD shows the average rent for a two-bedroom apartment to be $1,561 in Westchester County, $1,403 in Putnam County, and $1,156 in Dutchess County. Westchester average rents did show some decline year over year but the drop was confined to the highest rent apartments. REIT Avalon Bay's 2000 unit Westchester portfolio ran at 96% occupancy in 2010. REITs are among the most aggressive property managers, consistently keeping their rents at the highest possible levels. Occupancies above the industry benchmark of 95% are representative of a healthy business. Renters will face higher rents in 2012.

Institutional money flows to where it finds the best returns. Apartments have done very well in the recession; changes in market demand are easily accommodated by adjusting rents as needed within the short leasing cycle. With stable and predictable cash flows, mortgage financing readily available from Fannie Mae and other sources, the multifamily sector remains a sought after highly liquid asset.

The low vacancy also attracts new construction. Even in this tight construction financing environment new developments to open this year include Metro Partners 66main, a $50 million 170-unit loft style apartment building in Yonkers, with monthly rents of $1,400 to $3,200. In Rockland County GDC Homes is finishing Parkside, a five story elevator 109-unit luxury complex in Haverstraw. Two-bedroom rents start at $2,140. Developers are confident that with the new supply limited in general that rents at this level will be supported and previous similar projects have easily been absorbed.

With a shortage of quality available properties investors are again competing to buy well positioned and located assets. Institutional money flows to where it finds the best returns. Apartments have done very well in the recession; changes in market demand are easily accommodated by adjusting rents as needed within the short leasing cycle. With stable and predictable cash flows, mortgage financing readily available from Fannie Mae and other sources, the multifamily sector remains a sought after highly liquid asset.

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