

NJ MULTIFAMILY SALES

By Thomas McConnell, CCIM, Redwood Realty Advisors

Apartment buyers search for upside opportunities

In a hot apartment sales market where properties continue to sell for premium prices, buyers are increasingly turning to “fixer-uppers” as a means to achieve higher yields.



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The robust performance of the apartment sector in recent years has drawn abundant investment capital into the sector from both domestic and foreign buyers. Nationally, vacancies continue to hover at about 4.5%, while national effective rent growth rose a further 4.7% during 2015, according to Reis. The New Jersey market has been performing on par with that national market, and there is considerably more buyer demand than there are good properties for sale.

New Jersey apartments are consistently selling for cap rates below 6% even on smaller assets priced below \$5 million. So, it is no surprise that the competition and peak pricing has created a surge in interest for value-add opportunities. Investors are increasingly looking for that diamond in the rough, and they are finding it with older apartments that are ripe for repositioning. New Jersey is home to a number of long-time owners who have held properties for decades. Oftentimes, these owners no longer have debt or mortgage payments. So, they have put their properties on cruise control so to speak and are content to maintain high occupancies and a steady income stream — even if that means their rents are 20% below the market.

Developers are building new luxury apartments that carry a big price tag, in some cases twice the price per unit of an older garden unit property. Value-add investors recognize the opportunity to buy a vintage property and put money into renovations, such as new appliances, countertops and flooring, in order to significantly boost rents. Some properties have seen little improvements since the 1970s. So, it is a matter of updating kitchens, bathrooms, exteriors and adding new landscaping to reposition assets in the current market.

The shift to value-add buying is a growing trend across a number of major markets. New Jersey is getting an added boost from some of the current dynamics in New York City where both renters and investors are getting priced out of the market. People looking for cheaper rent are choosing to live in New Jersey rather than Manhattan. Likewise, the buying frenzy and cap rate compression on assets in New York City is driving buyers to look at opportunities in New Jersey where they can generate higher returns.

One of the notable high demand markets is Hudson County, which has a prime location directly across the Hudson River from Manhattan. Bergen County in Northern New Jersey and Middlesex County in Central New Jersey also are desirable markets that have been seeing strong investor interest. In particular, buyers prefer properties located in high-barrier to entry markets that also have great access to transit and are in walkable neighborhoods with easy access to shops and restaurants.

For example, the Redwood

Realty Advisors team recently brokered the sale of a 31-unit apartment property in Chatham, NJ for \$7.2 million. The buyers were willing to pay an aggressive 4.9% cap rate as they plan to make substantial updates to reposition the property, which is located in a high barrier to entry market and within walking distance to a New Jersey Transit train station.

Overall, this value-add trend is creating a win-win situation for both buyers and sellers. Long-time owners are able to sell out of properties and take advantage of ag-

gressive pricing. At the same time, buyers are willing to pay those low cap rates today, because they recognize the opportunity to create upside in the future. That outlook is supported by demographic trends and forecasts that predict continued strong demand for rental housing going forward.

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