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# 2005 Buffalo area apartment market report: Buy and hold is the predominant investment strategy

## bh Apartments



By Brian Heine,  
Licensed real estate broker

Investment money continues to flow into the Buffalo area apartment market in 2005. Total transactions for year 2004 rose to near 1,800 units, a sizable increase over the previous year's 1,100. The New York City based Related Companies in the year's largest transaction completed the acquisition of two properties in the city of Buffalo — the 192 unit Watergate II and the 132 unit Elmwood Sq. Both

properties are urban high rises and the combined purchase price totaled \$8.5 million with the planned expenditure of an additional \$8.25 million for improvements for a total acquisition and renovation cost of \$52,000 per unit. These sales helped push the average sale price of Buffalo city properties to \$25,000 per apartment in 2004 versus \$20,000 in 2003.

In Niagara County Aspen Sq. Management of Massachusetts sold 74 rental townhouses at \$55,000 each at a 9% cap rate. Remaining sales in suburban Niagara County averaged \$30,000 per unit, an 11% increase. Competition from individual investors drove the pricing of smaller complexes in desirable suburban rental locations such as the town of Amherst to cap rates



Elmwood Avenue Apartments, Kenmore

below 8% with properties selling in short time periods on multiple offers. Suburban Erie County prop-

erties remained unchanged at an average sale price of \$33,000 a unit with several priced value added

transactions holding the market down.

Luxury apartment owners, especially in the suburban locations of East Amherst and the town of Clarence, have seen vacancy rate rise as high income tenants choose to buy single family homes. Apartment managers have indicated that luxury two bedroom units with monthly rents above \$1,000 are the most susceptible. The Hammocks, a new large \$25 million luxury property, recently opened the first 144 units of a planned 288 units in Orchard Park and priced the two bedrooms starting at \$925. This was the only large suburban complex to open in 2004, most of the additions to the market in the last few years have been luxury complexes aimed at the top of the rental market, with none planned for 2005.

Middle market properties, the largest segment of market inventory, consisting of brick suburban garden complexes 30 or more years old and with tenants less likely to purchase single family homes continued to show strong occupancy. Home Properties reported their suburban Buffalo portfolio actually increased occupancy in 2004 to 94% from 91% the year before with rent growth of 2.4%. Their monthly average rent of \$.99 per s/f (including heat) leads this market sector. This portion of the market has seen stable occupancy and rent growth for the past decade and is the most sought after by investors as its moderate rents make it almost immune to new construction. In the city of Buffalo the 202 unit Amherst Garden Apartments reported 95% occupancy at time of sale.

Buy and hold is an investment strategy with owners holding properties 10 years or more. With sellers demanding and getting prices at all-time high valuations and sale prices rising faster than rents, at some point in the future rents will have to rise to support current prices if interest rates continue to rise. Local investment firms and individuals dominate the market; complex sizes here are too small to attract the attention of national investors and most REITs.

The typical long term owner rarely has rents at the maximum the market will bear and opportunities remain for investors willing to focus on value added strategies, seeking out those properties with below market rents or those where the renovation and improvement costs necessary to reposition a complex are easily recoverable.



## F O R S A L E

Elmwood Avenue Apartments, Kenmore, New York

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