



apartment market

2006 upstate apartment market: Steady demand and low long term interest rates drive the industry

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Steady demand and low long term mortgage interest rates continue to drive the upstate apartment market mid-year 2006. Capitalization rates remain in the 8% range. The drop in cap rates that propelled prices higher in recent years has leveled off and so far markets won't move below this floor. Buyers focus on the cash on cash leveraged yield. An 8% cap rate produces a 9% cash on cash

return when coupled with current 6% mortgage rates, at a 7% cap rate the same mortgage rate produces a cash on cash return of less than 5%, a figure unacceptable in this market as compared to other coastal markets or other types of investment such as government bonds. Apartment investments here in upstate New York are made for the long term, condominium conversions are few, and dependable high single digit returns in the 8% to 9% range find plenty of interest.

The major deal of 2005 was the purchase of 2,700 units in 12 complexes in the Albany area by Capital Acquisitions LLC of New Jersey for near \$60,000 per unit. The 72-unit Snowbird Landing in Syra-

cuse sold for \$84,000 per unit at an 8.8% cap rate with 100% occupancy and rents of \$.80 per s/f per

month exclusive of utilities. The upstate apartment market continues to show modest but con-

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tinuing rent growth and stable occupancy. REIT Home Properties, the largest owner of suburban gar-

den apartment complexes in the Buffalo, Rochester, Syracuse and Albany markets reported rent

growth of 1.9% in 2005 versus 2.9% in 2004 with 92% occupancy in its 5,000 unit portfolio. Average rents are \$1 per s/f per month plus electric. The Albany and Hudson Valley areas remain the strongest market, benefiting from the economic strength of nearby metropolitan New York and the ever expanding state government. The Albany Business Review reported that average rent in the capital region rose to the \$800 level in 2005 versus \$777 a year ago. The Home Properties Albany portfolio showed 4.2% rent growth in 2005 with rents of \$1.36 and 94% occupancy.

New multifamily supply is concentrated in the downtowns of Buffalo, Rochester and Syracuse. Rather than new construction, obsolete office and industrial buildings in central core locations have been retrofitted as loft apartments. Loft apartments feature large open living spaces with few walls and more tenant amenities than the typical suburban apartment complex along with rents of \$1 and higher. *The Rochester Democrat and Chronicle* reports a downtown population of 3,300 living in 2,500 lofts, apartments, and condominiums with 300 more units in work. These new offerings attract upscale singles and couples who relocate from suburban housing. Apartments in the upstate market are traditionally seen as stepping stones to single family home ownership and suburban complexes continue to experience a tenant drain to single family housing. The new downtown apartments are aimed at the highest rent levels and offer the first true alternative in the urban apartment market to suburban housing. The cities hope that retail and other development will follow.

Apartment investment allows the use of a small capital base and easily arranged mortgage financing and attracts long term investors looking for low risk investments and capital preservation. Capitalization rates reflect more than interest rate expectations but also the investor's outlook for real estate returns for the next five to ten years. Going forward in 2006 in the upstate apartment market changes in the value of an individual apartment complex will be driven more by changes in the properties' Net Operating Income related to income increases from rent growth and expense increases from higher property taxes and utility costs rather than fluctuations in cap rates.



F O R S A L E

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All brick construction, all two bedroom apartments with garages

Rarely available Williamsville luxury apartment complex

\$ 2,000,000

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