

2008 upstate New York apartment market report

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The upstate New York apartment market has so far shown little distress from the effects of the credit crunch in the financial markets. According to the one large Buffalo owner and manager the now nonexistent conduit financing has easily been replaced by near identical terms from Fannie Mae and Freddie Mac designated lenders and bank mortgage lending rates remain steady due to the recent drop in 10-year treasury rates. This lending advantage extends to multifamily investment

properties only as an asset class and is not available to other commercial real estate categories such as office or industrial. The supply and demand fundamentals for apartments also has improved as existing tenants are no longer able to finance single family home purchases with sub-prime mortgages and as defaults increase the displaced homeowners migrate back to apartment rentals.

Ownership continues to consolidate as larger operators buy out smaller complex owners, a trend that has accelerated in recent years. Major sales in 2007 included Morgan Management's purchase of the 216-unit Westview Commons in Rochester for \$60,000 per unit and the 348 unit High Acres Apartments in Syracuse for \$16 million. Morgan was one of the partners in the purchase of REIT Home Properties upstate portfolio at the

end of 2006.

Rental performance across the major upstate markets of Buffalo, Rochester, Syracuse and Albany remains strong. *Apartment Finance Today* magazine reports the Buffalo apartment market vacancy at 5.6% with rent growth of 3.4%. Sunrise Management in Albany reports average rents of \$0.93 per s/f per month in the Albany market with rent growth of 2.4% over six months and 14.4% since 2004. Albany is alone among the major upstate markets to experience consistent population and job growth, due of course to the presence of the state government in a state dominated by government. Attracted by this market demand developers have steadily built new inventory in Albany and the surrounding counties in recent years and currently the Spanos Corp. of Atlanta is building The Alexander, a \$44 million, 300-unit luxury complex across from the Harriman State Office Campus. Rents will be in the \$1.70 range. The Rochester Downtown Development Corp. reports a 6.6% vacancy in the downtown market with a rent range of \$1.10 to \$1.80 and the Syracuse Post Standard quotes downtown rent ranges of \$600 to \$2,900 per month.

Student housing development is thriving across the upstate markets. This recently realized submarket has proved to be extremely profitable to those owners of these specially designed rental properties located near large populations of college students. The rent rates can be 50% higher than a similar sized market rate unit. Park Point, a \$72 million mixed-use project near the Rochester Institute of Technology under construction by the Wilmorite Management Group will include 300 apartments. Developer John Yurtchuk is finishing the 120-unit student only Riverview Apartments near the University of Rochester. Collegiate Crossing, a \$96 million conversion project sponsored by Villa Maria College, is located near Buffalo. In sales activity the Campus Hill Apartments, 42 buildings housing students from Syracuse University, were sold for \$26 million to Salmanson Capital, a New York City real estate investment firm.

The real world economy of upstate New York may weaken in the anticipated upcoming national recession. Protecting apartment complex property values involves focusing on the basics of maintaining occupancy, controlling expenses and keeping rent levels at market aided by the region's conservative underwriting and lack of speculative construction. Demand from investors for apartment investments has not abated and financing for multifamily properties continue to be available.

Brian Heine is a licensed real estate broker in Buffalo, N.Y.

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