

Spotlight / Western/Central New York

2011 Upstate apartment market: High occupancy and increasing income indicative of strong market

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The important operating fundamentals, specifically the occupancy rate and annual percentage rent increase, of the upstate New York apartment market are doing very well in 2011. High occupancy coupled with increasing income is indicative of a strong market and owners are seeing increased cash flow from the resulting rise in NOI. Sunrise Management &

NOI growth should remain strong through the end of 2011. For years interest rates have been forecast to rise and only the intervention of the financial crisis is seen as having postponed what is now seen as happening in the next year or two; rates rising no matter what. Buyers will have the additional constraint of higher long term mortgage interest rates and sellers will need the maximum in place NOI to compensate if they're to maintain their sale price target.

Consulting in their latest Multifamily Rental Market Report find consistent growth in average rent and average rent per square foot for most markets in New York State, with some show-

ing strong increases. Middle income renters are price sensitive and in the past have hesitated at higher rates even when offered updated units. Tenants have fewer choices today than

in the past and with low average rent rates across the board here owners should take advantage of the current economic uncertainty to bring rents up to market.

Sale activity was slow across the markets of Buffalo, Rochester, Syracuse, and Albany with few of the lender owned assets that dominate many of the markets nationwide and sellers lacking alternatives for their capital are still reluctant to place properties on the market. Those properties that are offered for sale find strong interest from buyers with active competition for well located and properly maintained assets. Ten year mortgage loans are still quoted at under 6% with five year money in the mid-5% range. A March 2011

NREI survey of lenders found an overwhelming 75% picked apartments as the best commercial real estate investment prospect.

New construction is active and privately financed projects continue to target the high income renter. The 222 unit Waterview Apartments is now under construction in Cohoes, north of Albany. The \$33 million project includes a mix of one, two, and three-bedroom townhouse style units with attached garages, high end finishes, and full service amenities. Lower income affordable housing is impossible to develop without public subsidies. The existing inventory mostly dates from the 1960s and 1970s, the escalating maintenance and utility costs are not supported by the heavily regulated rents, and the building systems have reached the end of their useful life. Public Housing Authorities see these properties as valuable assets and are renovating them to preserve the income restrictions for another generation. Also near Albany, the rehabilitation of Van Rensselaer Village, a garden apartment complex built in 1972, in Watervliet will result in 81 units, down from the existing 100 apartments, ranging from 1-4 bedrooms. Omni Housing Development along with the Watervliet Housing Authority are undertaking the project at an only in the public sector all in cost of \$18.5 million (\$228,000 per unit), near double the cost of privately financed construction. The DiMarco Group in Rochester will use \$12.5 million in funding from the New York State Housing Finance Agency as part of the total \$16.8 million project cost for major renovations at the 186 unit Bayshore Apartments in Cicero, north of Syracuse, built in 1979.

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Brian Heine is a licensed real estate broker in New York State.