

## Upstate

# A look at the 2016 Buffalo apartment market

## Brien Heine



Licensed  
Real Estate  
Broker

Multifamily sales totaled \$127 million in the Buffalo area market in 2015, down from 2014 but again above the \$100 million dollar level achieved each of the last four years.

2015's major sale was the 111 unit Montgomery Park independent living apartment complex in East Amherst sold for \$24.8 million to NorthStar Realty Finance. The luxury property was built in 2002 and the unit mix includes studio, one, and two bedroom apartments. Institutional sellers and buyers are the norm in high end, high service senior housing as this asset class utilizes a business model with nationwide economies of scale. In the city of Buffalo's Delaware District north of the CBD The Wynn Group of Toronto bought the 62 unit 1165 Delaware prewar apartment building for \$4.27 million or \$69,000 per apartment. Reflecting the overwhelming interest in purchasing multifamily assets the sale price represents a 67% increase over what seller GreenLeaf Properties paid four years earlier.

Cap rates have compressed in all markets across the country especially in the last two years; lower cap rates lead to higher sale prices. Concerned about excessive valuation, banks have been hesitant to underwrite deals here at cap rates below 8% and at sale prices above this level buyers are expected to contribute additional equity. The Park Square Apartments in Orchard Park sold at a 7.5% cap rate, 26 apartments and townhouses at \$2.5 million or \$96,000 an apartment. Even at this price, the sale qualified as a value added deal with the buyer able to make improvements and increase rents on the renovated units shortly after closing, from \$1,200 to \$1,500.

Sunrise Management and Consulting of Albany quotes rents as rising 6.95% in the last year and 14.1% over the last three years in the western New York market with an average rent of \$1,141 in 2015 in a survey of 19,400 apartments. The population as a whole today looks at multifamily housing more positively than in previous years and rents have increased in all apartment classes. Both millennials and retiring baby boomers now accept urban inner city apartment living as a lifestyle choice. Owners now cater to potential renters with open modern layouts, large kitchens, and high finish levels. Rents in the CBD have moved from \$1.25 per s/f to as high as \$2 per s/f

in the last few years for the newest loft apartment conversions.

The *Buffalo News* reports that in the past five years 5,500 new apartments of all types including all classes of senior housing and purpose built student housing have been built or are proposed in the entire western New York market, including 1,300 in its largest suburb the town of Amherst. Previously, there had not been significant multifamily development since the 1970s. In the city of Buffalo, 82 projects with 3,500 apartments since 2012, including 1,300 in the downtown core, are in various stages of planning and development.

The opportunity for investors is in the class B properties, there is no foreseeable new competition as there is no financial incentive to build for

rentals below \$1,000. With rents as high as \$2,000 per month in the new developments, class B owners have been able to narrow the gap between class A and B rents to their advantage. There is always strong demand for affordable workforce apartments, catering to those earning up to the median household income. Most sought after is the large inventory of well-located suburban garden apartment complexes built in the 1960s and 1970s and as these complexes come on the market expect high levels of interest and quick sales.

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**Brien Heine is a Licensed Real Estate Broker in New York State**



Jeffrey D'Amore  
Executive Managing Director

Phone: (315) 725-3510

Email: [jdamore@pyramidbrokerage.com](mailto:jdamore@pyramidbrokerage.com)

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