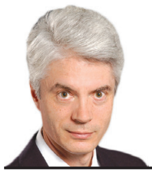
Overview of 2017 New York Upstate apartment market



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The Albany apartment market has seen substantial new construction in recent years. The 2016 Sunrise Management & Consulting Multifamily Rental Market Report shows there is a high percentage of newly built multifamily properties (those built since 2010) as a proportion of the total market inventory in the Capital Region of New York; the counties of Albany, Rensselaer, Saratoga, and Schenectady. These new properties have raised average area rental prices but the new inventory hasn't moved conditions in the overall market which remain stable with rents continuing to increase at 2%-3% per year. Investors are willing to buy this new construction. In Bethlehem in Albany County, the 34-unit Locust View Apartments, a class A suburban garden complex built in 2013, sold for $4.563 million or $134,000 per unit at a cap rate of 7.3%. Rents range from $1,280 to $1,450 with 91% occupancy at sale. Cap rates haven't moved in recent years and remain between 7% and 8% for investment grade complexes, with higher rates for less desirable properties. Resale to investors of new construction is indicative of a healthy market.

Buyers are also paying record prices for older class B apartment properties across upstate New York, including the major markets of Buffalo, Rochester, Syracuse, and Albany. In Painted Post near Elmira, south of Syracuse, the 286-unit Emerald Springs, constructed between 1962 and 1982, sold for $22 million, almost $77,000 per unit. The 146-unit Steeplechase Apartments, built in 1976, in Camillus near Syracuse sold for $11 million or $75,000 per apartment. These properties are considered stable multifamily investments inherently less risky than newer luxury apartments. They cater to the renter by necessity rather than the renter by choice. More renter households are created as the home ownership rate falls and as there's no foreseeable end to this trend it is supportive to both long term occupancy and rent growth, and it spans both the millennial and baby boomer generations. Luxury apartments are more risky as fewer renters can afford the higher monthly rents and future increases. As developers continue to build class A in both suburban and central city locations, no one builds class B anywhere. Comparing the premium between Class A rents and class B rents REIS, a real estate research firm in New York, reports the Syracuse market has the narrowest margin between A rents and B rents at 29%, as compared to as high as 69% in downstate Westchester County. Investors here can achieve less risk while only giving up a small rent premium. Sunrise Management Consulting also found that rents per s/f in all markets of the northeast continuing to rise.

Downtown central business district residential conversion projects continue across the state. Winn Development and GDD Properties have started redevelopment of the Sibley Sq. in downtown Rochester. The current $100 million phase includes 96 luxury apartments on the 9th through 12th floors and 72 active mixed-income 55+ senior living apartments on two of the lower floors, rents start at $1,600. The Rochester Downtown Development Corp. reported downtown Rochester vacancy at 2.1% in 2016 and see an additional 1,726 new apartments in the next five years.

Upstate New York multifamily market fundamentals are healthy; occupancy and rent growth are positive, and investors are paying what are considered to be all time high prices (record low capitalization rates) for all classes of assets. There still remains a significant margin between bank long term mortgage rates and apartment capitalization rates and this positive leverage produces the above average cash flow as compared to other investment classes that drives this market. Expect a very active apartment market Upstate through the end of 2017.

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