

# Buffalo Apartment Market

## Class B suburban garden apartments are sought in Buffalo, Erie and Niagara counties



**Brian Heine**  
Licensed  
Real Estate Broker

Mortgage interest rates look to have crested in the first part of 2024 dropping back to the 7% range from above 8% in response to the 10-year treasury falling back down to as low as 4%, pricing in several expected rate cuts by the Federal Reserve. It remains uncertain when these rate cuts will happen as the Fed's inflation and employment targets remain unmet, although the single-family housing market has slowed largely, creating more renters and benefitting the apartment industry as a side effect. Banks here are underwriting at higher cap rates, now in the 7% range, but sale pricing is little affected as the rising rents of the last few years supported NOI (net operating income) to allow mortgage underwriting at the higher interest rates, offsetting the pricing pressure from higher cap rates. Declining sale volume was expected to pressure long-term

mortgage rates lower but the market is active, sales totaled \$205 million in 2023 in the Buffalo apartment market. There is still unmet investor demand for needs based real estate assets like apartment buildings, Warren Buffett has stated a possible long-term investment is to buy and hold 1% of all the apartment buildings in the country. There are long-term upward pressures on apartment rents and owning apartment buildings can be a lucrative business.

Investment real estate values here are less volatile, meaning prices fluctuate less up and down than the larger major markets, and in response to the stable collateral value local lenders are still offering 80% loan to value mortgages. Some apartment values in New York City will fall 20% to 40% this year as deals made in anticipation of rent deregulation fall through. New York Community Bank's stock price collapsed after it was reported that 22% of its commercial real estate loan portfolio is in rent regulated apartment buildings, banks here are more conservative. Class B suburban garden apartments are

**Class B suburban garden apartments are sought in Buffalo and Erie and Niagara counties with below market rents that can be remodeled and upgraded and the rent roll increased. Short-term bank mortgages with five or ten-year terms are popular with this strategy. The added value can then be refinanced or the property sold at the newly created value in timing with the mortgage due dates. There is considerable investor competition for apartment complexes that fit this business model and rolling the equity forward in a 1031 exchange a few times can generate a considerable return on the initial equity.**

sought in Buffalo and Erie and Niagara counties with below market rents that can be remodeled and upgraded and the rent roll increased. Short-term bank mortgages with five or ten-year terms are popular with this strategy. The added value can then be refinanced or the property sold at the newly created value in timing with the mortgage due dates. There is considerable investor competition for apartment complexes that fit this business model and rolling the equity for-

ward in a 1031 exchange a few times can generate a considerable return on the initial equity.

Upcoming challenges in 2024 include mortgage renewals and property assessments. Those with mortgages coming due during the year need to plan for renewal rates near double those of five years ago. The only answer to higher debt service is higher income, to satisfy the debt service coverage ratio keep rents at market at all times to maximize the mortgage

amount the NOI will support, existing tenants especially and not just turnovers. The rental market has pushed significantly higher nationwide the last three years and you will need to take full advantage of what's available. In a sale, the highest sale price results from the maximum mortgage the buyer is able to arrange, the bank brings most of the money to closing, not the buyer. Municipalities at all levels are broke and looking for funding anywhere they can find it, and with sale pricing at all-time highs the last few years commercial property owners should expect property taxes, both assessments and rates, to go up faster than rents. Property taxes are overwhelmingly the single biggest apartment operating expense anywhere in New York State, typically 15% to 30% of income after vacancy allowance. The assessment needs to be managed with the same attention as other building operations, watch recent market activity and keep open lines of communication with the assessor's office.

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



### FOR SALE

The Crossings Townhouse Apartments, town of Amherst, New York  
Ten apartments with land available for additional development  
*Sale is cash to assumption of existing Fannie Mae mortgage*  
**\$3,180,000**

**Brian Heine**  
Exclusive Broker  
[www.brianheine.com](http://www.brianheine.com)

**(877) 884-4437**  
**(716) 884-4437**  
[b.heine@verizon.net](mailto:b.heine@verizon.net)