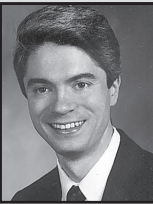


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apartment market

Upstate apartment market: Low vacancy rates and positive rent growth continue through 2005

bh Brian Heine



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Investment interest remains strong in the upstate apartment market heading into the fall of 2005. Attractions to this market continue to be stable rents and occupancy with little competition from new construction. The attractiveness of this low volatility real estate investment coupled with still historically low long term commercial mortgage rates has kept capitalization rates on major sales near 9%

and lower; pricing still below that seen in primary markets but considered high here and luring owners looking for an opportunity to cash out.

Banks have ample funds to commit to multifamily lending and are allowing increased loan to value amounts with seller secondary financing to compete for deals. The most active buyers are local development firms and investors adding to their portfolio. Sellers are typically retiring individuals and with hold periods of up to 20 years the for-sale inventory hasn't yet matched demand.

Suburban brick garden apartments built 30 or more years ago generate most of the activity. Their construction and desirable infill lo-

cations could not be duplicated today. Knollwood Manor in Rochester sold for \$12.65 million or

the year's deal flow include the 224 unit Northgate Manor, sold for \$9.3 million or \$41,500 per unit at

Real estate investments require a steady and reliable stream of rent payments to cover mortgage payments and operating costs. Adequate rent growth is necessary to cover yearly expense increases. Steadily increasing income coupled with a self liquidating mortgage produces an impressive return on the small down payments necessary for leveraged apartment complex purchase.

\$56,000 a unit at a cap rate of 9% in 2004's largest transaction. Monthly rents are \$.88 per s/f and occupancy 88%. Other complexes in

a 9.2% cap rate. Details of the sale include a 95% occupancy at sale with rents of \$.87 per s/f.

The flow of upper end renters to

single family home ownership continues, although this may change as home mortgage rates rise through 2005. Developers are responding with downtown loft conversions aimed at luring back these tenants to units with features and amenities not found in traditional apartment complexes.

The Lofts at Franklin Sq. in Syracuse opened 40 units of a planned \$13.5 million 90 unit development and filled all the apartments at an impressive average rent of \$1.60 per s/f. Convenience and condominium quality kitchens and baths attract professionals and others who want the ease of living downtown. More small loft projects are planned for Buffalo and Rochester.

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Demonstrating the desirability of holding apartment investments in upstate New York is the performance of publicly traded Home Properties, one of the few national investors in our market and the dominant player here. Their results are transparent and easily available though an examination of their SEC filings. The properties are managed for maximum occupancy and rent level reflecting the pressures of public ownership. A review of the results for the 24 apartment complexes they own in the Buffalo, Rochester, Syracuse, and Albany markets show 94% average occupancy in 2004, up from 92% in 2003, and average monthly rents of \$.98 with yearly rent growth of 2.9%.

Similar consistent results, a low vacancy and positive rent growth, have been reported in recent years during a time of slow economic growth upstate. These favorable investment results are expected to continue through 2005.

Owners still need to consider the effect of rising interest rates on value and how it influences their acquisition and disposition decisions, but with proper management and attention to operation apartment owners here in upstate New York can feel confident their investments will produce a steadily increasing cash flow and enable them to benefit from the enhanced returns that leveraged apartment ownership offers.



F O R S A L E

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