up Question of the Month

What is the status of the 2007 upstate New York apartment market?

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> **Responding to true market demand developers continue to focus their energy, ideas and attention in the downtown markets, the conversion of older obsolete commercial buildings into apartments lofts. These upper income prospective tenants, generally professionals and empty-nesters, appeal to developers in their ability to pay the $1,000 plus monthly rents necessary to make the numbers work. The downtown areas of Buffalo, Rochester, Syracuse and other smaller cities have numerous apartment loft projects under construction.**

Real estate investment trust (REIT) Home Properties recently completed the sale of its entire upstate New York Apartments portfolio in December 2006, easily the one of biggest market news in years. The 4,567 units in 18 complexes spread among the Buffalo, Rochester and Syracuse markets sold for $252 million or over $56,000 per unit. The complexes were 96% occupied with average monthly rents of $0.99 per s/f. The regional property companies that jointly purchased the portfolio are Dawn Homes Management and Tri-City Rentals based in Albany and Morgan Management of Rochester. The sale proved to be hugely profitable for Home Properties as they reported a gain of approximately $110 million on a sale cap rate of 7.2%. Responding to the pressures of publicly traded companies and following the trend of other apartment REITs they will invest the proceeds in high barrier-to-entry, higher growth markets along the eastern seaboard. Identifying and purchasing non-core assets from public companies allow the buyers to obtain a large concentration of well located and well maintained properties in one transaction.

Average prices in apartment complexes across upstate remain in the $50,000 per unit range with heavy sale activity across the market. Morgan Management purchased five complexes totaling 990 units in the Rochester market for $46 million or $46,500 per unit and Midway Investors of New York City paid $26.2 million for 557 units ($47,000 per unit), two near Syracuse and one near Elmira, Midway reported 95% occupancy in two of the properties.

In line with the vacancy rates reported in the above sales, many other owners across the state report vacancy rates of five percent or less. Five percent vacancy is considered an industry standard in the real estate management business and a sign of a healthy rental market. The Rochester Downtown Development Corporation in a report released in August 2006 indicates the vacancy rate for downtown Rochester rental housing to be 4.7% with rents as high as $1.80, although they also noted that some concerns remained in the regional rental market attributed to tenant concessions and expense increases in property taxes and natural gas prices. For older properties vacancy is a management issue with building owners forced to make expenditures on remodeling units to attract tenants to apartments that previously were leased primarily on location.

Responding to true market demand developers continue to focus their energy, ideas and attention in the downtown markets, the conversion of older obsolete commercial buildings into apartments lofts. These upper income prospective tenants, generally professionals and empty-nesters, appeal to developers in their ability to pay the $1,000 plus monthly rents necessary to make the numbers work. The downtown areas of Buffalo, Rochester, Syracuse and other smaller cities have numerous apartment loft projects under construction. The suburban complexes built in recent years have been located in outlying areas where land was easily available rather than on closer in infill lots and tend to have near identical layouts as opposed to the unique character of the lofts.

The majority of the suburban inventory is approaching 50 years of age and with acquisition cap rates near 8%, developers are opting for a value added approach; taking advantage of the desirable location of these older existing complexes, improvements are targeted to increase the net income and generate returns in excess of the going in cap rate. This higher risk activity can provide greater profits than the straight purchase and hold or new construction.

Accelerating activity in the upstate apartment market is good news for owners. The higher long term mortgage interest rates predicted in recent years have yet to materialize, slowing economic growth may stem the flow of renters to houses, and buyers are plentiful for those looking to sell.

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