



western new york

2011 Buffalo area apartment market commentary: Focusing on smaller properties

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Total sales in the Buffalo market declined for the third straight year; the number of apartments sold in Erie and Niagara Counties fell 19% in 2010 versus 2009. Average per apartment sale prices in the Buffalo suburbs for investment grade properties increased to \$39,200 from \$37,000 in 2009 and Buffalo city properties increased to

\$35,300 from \$30,900. Constraints in the market including tightened mortgage lending standards and a dearth of suitable complexes on the market have caused buyers to focus on smaller properties which generally trade at a higher per unit price. In 2010 there were no 100+ unit apartment complex sales even though significant demand exists for larger properties. Niagara county pricing declined to \$29,400 in 2010 from \$34,900; weakened by more sales in the city of Niagara Falls versus suburban Niagara County. Inventory in the city markets of Niagara Falls and Buffalo tend to be older properties with average household income levels less than suburban neighborhoods with cor-

responding lower prices.

Suburban cap rates for investment grade properties remain in the 8% to 9% range. Investment grade in this analysis means apartment complexes with little deferred maintenance, professional management whether by the owner or a third party firm, and high occupancy. Lenders now look closely at the condition of the collateral and insist that the remaining economic life of a property far exceed the loan term and with most of the area inventory built in the 1960s and 1970s that means updated windows, modern HVAC, and recently replaced roofs.

Declining home ownership rates and decreasing tenant turnover has kept vacancy rates near 5% and

with western New York's aging population demographic there is considerable new construction in the senior housing market sector. Senior housing restricts the rentals to persons 55 years of age or older. Kenneth Franasiak, chairman and CEO of Calamar Enterprises, is quoted in The Buffalo News as saying "the demand for senior housing is overwhelming." In 2010 Calamar opened the 92-unit Forestview Senior Village in Wheatfield with rents ranging from \$1,125 to \$1,325, and is in the planning stages of the \$10 million 90-unit Eagle Crest Senior Apartments in Orchard Park. Specialists such as senior housing developers addressing a specific market niche are finding an easier

time accessing construction financing than developers of general mass market apartments.

Waldex Holdings plans a \$20.4 million 200-unit senior citizens apartment complex on Transit Road in Amherst. \$3 million in tax breaks will allow monthly rents of \$750 for one-bedroom apartment and \$850 for a two-bedroom. These rents are not far off current average monthly rates and will compete directly with existing market apartments. As "empty nester" seniors comprise a large part of the general tenant population as a whole these new offerings pose a potential problem for owners of competing complexes. Other projects include Young Developments planned 175-unit in West Seneca and construction has begun on the \$11.2 million 153-unit Brighton Square senior housing in Tonawanda; this property imposes income limits on tenants and accepts



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federal housing vouchers. The developer, Affordable Senior Housing Opportunities of New York, received \$2 million in tax incentives from the Erie County IDA.

The lack of inventory on the market and competition among buyers for well located properties has kept sale prices firm. Tony Kissling, a New York City developer with a 1,000 unit Buffalo portfolio, states in the Buffalo News that his \$28 million Remington Lofts project in North Tonawanda is done in response to "overwhelming demand." There is unfilled demand from buyers for existing 100 to 150+ unit apartment complexes and as buyers become more aggressive to win deals prices will rise to the point where sellers will be more comfortable in releasing their properties to market.

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