Upstate

Commentary on the 2013 Upstate area apt. market

Brian Heine

Licensed real estate broker

Morgan Management of Rochester paid $94 million for a 2,900 unit nine property suburban Rochester apartment portfolio from the Farash Charitable Foundation in January of this year. This is the largest apartment sale since REIT Home Properties exited the upstate market with a 4,567 unit sale in 2006. The Farash Foundation, funded by the estate of Max Farash who built the suburban garden apartment portfolio in the 1960's and 1970's, is looking to diversify its investment portfolio. Major regional players including Morgan are looking for acquisitions in their own market; REIT's are not interested in secondary markets. Institutional size sale opportunities here are rare, owners with few options for their sale proceeds that produce the same return as their apartments are holding on to their properties. Morgan uses every available opportunity to add to its upstate portfolio, now over 15,000 apartments, and moves aggressively in those rare instances when sizable product is offered.

The reasoning behind this deal, and the many other smaller sales taking place, is the uncertainty associated with paper assets. Investors are looking for quality hard assets, as in a cash flowing business or real estate, as opposed to paper assets like stocks or bonds. Apartments are the easiest productive asset to own, store value over the long term, and produce steady returns. Treasury bonds show an insignificant return compared to the 7-8%+ cap rates (un-leveraged first year yield) for high quality professionally managed assets in the upstate apartment market. Enabling the transactions are the low long term mortgage interest rates and the high percentage (up to 75%) loan to value mortgage amounts available specifically tailored to the multifamily investment market. These terms are unavailable to other real estate investment classes. Buyers incur the risk of purchasing assets at times of historical (but artificial) low rates but the Federal Reserve has signaled that it's going to leave interest rates low for the foreseeable future. When the repeatedly predicted rise in long term interest rates finally begins, signaling the big change in Federal Reserve policy, owners should have ample warning and be able to adjust their operations accordingly.

In its Fall 2012 Multifamily Rental Market Report, Sunrise Management & Consulting reports New York State apartment rental rates show a strong upswing as stability continues. Most regions have reported increased gains in their rental rates from the previous Fall 2011 data. Reis, Inc. reports third quarter 2012 vacancy in the Rochester market was 3.1% with rent growth at 3.3%, Syracuse was 2.6% with rent growth at 3.2%, Buffalo was 3.4% with rent growth of 2.6%, and a 3.5% vacancy rate in the Albany market. This data is what attracts lenders to the apartment market at competitive terms; a high occupancy and increasing cash flow translates into low risk banking.

New supply follows new employment and population growth. Global Foundries (the manufacturing arm of Advanced Micro Devices) is building a $4.6 billion computer chip factory in the town of Malta in Saratoga County north of Albany. In anticipation of the 10,000 to 15,000 jobs expected as the complex builds over the coming years several apartment projects are planned and underway. Bonacio Construction is adding 119 apartments to The Springs development in nearby Saratoga Springs, total build out will total 178 units at $30 million. RBC Construction is building the $35 million 200 unit The Kensington. Monthly rents will range from $1,250 to $1,900 for 900 s/f to 1,450 s/f apartments.

The economic contraction following the financial crisis uncovered the problems associated with highly leveraged complex investments. Property is worth holding over extended periods of time. Investing upstate is a long term prospect, requiring patient equity and conservative financing.

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