1989 | OVER TWENTY FIVE YEARS

2018 New York Upstate Apartment Market - by Brian Heine

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Upstate New York multifamily properties are finding buyers in all sizes, locations, and price ranges. Transactions are no longer one-off acquisitions as regional and local buyers continue to grow their portfolios aggressively. Scattered site portfolios and smaller properties are easier to manage effectively with online management software and rent optimization algorithms allow the effective pricing of even small complexes. Class B and C garden apartment complexes built in the suburbs surrounding the upstate cities of Buffalo, Rochester, Syracuse, and Albany in the 1960s through the 1980s is the majority of the inventory and major focus of the investment community. Buyers have been paying higher prices and cap rates for these older properties seeing value in their locations and upside in potential improvements. Construction costs prohibit the construction of any new competition in these classes and there are no easily buildable sites left in these densely populated suburbs for new build class A. In the last ten years a significant portion of the class B and C renter population has been shut out of the single family housing market, home ownership rates nationwide are lowest in years, and combined with the lack of any new construction in these classes offers to investors high occupancy apartment properties with rising rents populated by tenants with few other housing options. The challenge is in identifying the opportunities that exist in all these markets and submarkets.

Higher prices bring more concern with property management and operations, specifically expense control and its effect in maintaining an appropriate cushion between the NOI and debt service. Reducing the expenses produces the same effect on NOI as increasing the rents. Property tax payments have replaced heating costs as the major operating expense item in upstate New York’s apartment market, in some cases up to 20% of gross income. Owners need to be aware that managing the property includes managing the property tax assessment and that this needs to be addressed before the sale closes. An investment property’s sale price is different from its value for tax purposes as the purchase price of an operating investment property is a combination of the real property, personal property used in the operation of the property that is not classed as real property, and any other non-tangibles that add value such as the naming rights, vendor contact lists and other proprietary operating data, etc. Only the value assigned as real property is subject to ad valorem or property tax. Closing the sale without allocating the sale price means taking the entire purchase price as real property at closing and leaves the total sale price to be used in future assessment comparisons or calculations whether accurate or not. Allocating the closing price allows a realistic assessment and property tax expense figure.

Cap rates for professionally managed investment quality apartment complexes are in the 6% to

8% range, and even with the recent rise in interest rates this pricing still leaves a positive leverage between sale cap rates and five or ten year long term multifamily mortgage interest leaving a considerable positive cash flow. Investors here have a long term outlook reducing the pressure on cap rates that short term interest rate fluctuations can cause, as compared to properties in major markets with much lower cap rates and no margin for error. Although higher rates complicate acquisition financing they also increase rates on fixed income investments such as bank certificates of deposit. A typical exit strategy for long term private owners is to replace income from real estate cash flow with investment income, accepting a lower return for the lower risk in retirement, and should bring more sale listings to the market.

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