



2010 Buffalo area apartment market report

May 25, 2010 - Upstate New York

Prices remained steady in the Buffalo apartment market through 2009 although sales activity measured by the number of apartments sold in Erie and Niagara Counties fell 29% from 2008, as 2008 fell 37% from 2007. In the largest transaction of the year The Related Companies of New York City purchased the 206 unit Pine Harbor Apartments, a fourteen building contemporary urban mid-rise north of downtown Buffalo built in 1975. The New York State Housing Finance Agency approved \$13.5 million in financing for acquisition and renovation costs totaling a far above market \$65,500 per unit. Outside of this sale Buffalo city prices fell slightly to \$30,800 per apartment from \$33,000.

In Niagara County prices rose to \$34,900 in 2009 from \$32,000 in 2008, although fewer than 200 investment grade units changed hands. Investment grade property pricing in the Buffalo suburbs declined to \$37,000 per unit from \$40,000 versus the year before, negatively influenced by the sale of the 259 unit Crestmount & Embassy Square Apartments in Tonawanda sold together for \$9.165 million or \$35,400 a unit. Reflecting the below average price the buyer, Buffalo Management Group, plans many improvements to the properties which were reported to have a below market 85% occupancy at closing. The two brick garden style complexes contain 86 one-bedroom and 173 two-bedroom apartments.

New development remains concentrated in the Buffalo CBD and north along Delaware Avenue. In the CBD 80 new loft apartments were completed and an additional 290 were announced last year. In the Delaware District the former Niagara Lutheran Home at 1040 Delaware, a three story 44,000 s/f brick building built in 1956, is to be converted into 49 apartments. Delaware Ave. remains a sought after address and these new projects should be readily absorbed; Carl Paladino, an active residential developer, remarked in the Buffalo News that demand has yet to be met for rental apartments in the downtown area.

Two condominium conversions also along Delaware Ave. will offset most of this new supply. 849 Delaware, a 48-unit nine story post war high rise built in 1961 has started closing unit sales as high as \$214,000; and 916 Delaware (includes 905 Delaware), an 82 unit five story 1926 prewar mid rise has started marketing units priced between \$83,000 and \$184,000. Urban properties comprise a real market opportunity here as there exists a large gap between "as-is" historical sale prices and potential condo conversion prices. In the prime suburban markets such as Amherst most complexes suitable for conversion were converted in the 1980s and current prices leave little margin for developer profit. Compared to 916 Delaware's last years sale price of \$72,000 per apartment expect future sales in the Delaware District to include a condominium conversion premium in their pricing if both these projects prove to be successful.

Average monthly rent rates in the Buffalo market increased \$8 to \$769 according to the Sunrise Management and Consulting Spring 2009 Multifamily Rental Report; rent levels remained flat the

remainder of the year. Stable rent levels signify a stable occupancy and The Brookings Institution in December reported the Buffalo Niagara region among the nation's top 20 strongest-performing out of 100 of the largest metro areas.

Stable operating fundamentals coupled with a modestly rising housing market have given owners little reason to sell. Those properties on the market reflect little change in pricing from previous years; there is no foreclosure activity here in the multifamily sector to add pressure. Without the expected fall in prices buyers have been reluctant to move. Pent up demand exists but expect 2010 to be a repeat of 2009 with transaction volume remaining low until buyers become more optimistic, get comfortable with the current pricing, and re-enter the market.

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

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540