



Commentary on the 2014 Buffalo apartment market

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Multifamily sales in the Buffalo market, together Erie and Niagara counties, totaled \$113 million in 2013, less than the \$125 million of 2012, but far above 2010 and 2011 levels. Sale turnover is mostly suburban middle market garden complexes built in the 1960s and 1970s, these existing properties produce predictable returns, are easy to value and finance, and attract investors. Apartment occupancy has been consistently reported at 95% or higher and rent growth, the year to year increase in apartment rents, has been in the plus 2% to 3% range annually. There is demand for new apartments.

Developers have responded with new construction in two areas; conversion of historic urban buildings into loft apartments and new garden apartment senior housing in the suburbs. Public subsidies are available to compensate for the areas high construction costs and low existing rent levels, municipalities see enabling this construction as an economic benefit to the region, and developers have become accustomed to receiving them.

Typical of the small city loft conversion projects Signature Development recently completed the Houk Lofts in North Buffalo; converting an abandoned 28,000 s/f industrial manufacturing building into 22 apartments and two commercial spaces. At a total project cost of \$6.72 million; the \$280,000 price per apartment (counting each commercial space as an apartment) is far above the areas average per apartment resale price of \$44,000. The rental rates are in the \$900 to \$1,250 range for one and two bedroom apartments and competitive with the higher end of the existing inventory despite the high development cost. The assistance of a number of incentive programs covers the difference.

The federal historic rehabilitation tax credit covers 20% of the total cost of the rehabilitation, both the hard and soft costs; in effect, 20% of the rehab costs are borne by the federal government. Income producing properties that qualify for the 20% federal tax credit automatically qualify for an additional 20% tax credit from New York state. This is a tremendous draw to apartment developers as the credit can be used as part of the equity requirement of the development deal and along with mortgage tax and sales tax savings can minimize the developer's initial cash outlay. In the city of Buffalo, New York state's Section 485-a Urban Exemption Program waives property taxes for eight years and combined with the low debt service from the current all time low mortgage interest rates produce a tremendous savings in operating expenses and carrying costs.

Greenleaf Development reported to the Erie County IDA that for their \$5.8 million loft conversion of the downtown Bosche building on Main St. into 23 apartments that a return on investment of 12% is possible with tax breaks and credits, as opposed to a negative 5% without them. The new loft apartments fill a specific market need, tenants love new apartments and fill them as they open, but some of the demand is migration from the existing competition and none of this would be happening without the historic tax credits.

Suburban projects also qualify for incentives but a recent study from the University at Buffalo Regional Institute points out that there really was not much need for assistance in the case of new senior housing. In 2013 the Amherst IDA turned down a \$1.3 million incentive package for a 99 unit \$8.9 million senior housing project on Maple Rd. in Amherst. According to the Buffalo News developer MEL investors said rents for a two-bedroom apartment would need to rise \$200 from \$1,000 to \$1,200 without the tax breaks, a significant increase in a price sensitive market, but both figures are within the quoted range of existing apartment rental rates in the Amherst market. There's no dispute the market need is there, the developer's own market study found the vacancy rate at eight market-rate apartment complexes in Amherst at 1%, but whether how much public assistance is necessary to improve the competitiveness of new product with already existing apartment rentals.

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