



2020 New York Upstate apartment market - by Brian Heine

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The upstate New York apartment market was at all-time record levels through February before the pandemic. Among the upstate cities Redfin ranks Buffalo and Rochester as the first and fourth of the 49 largest U.S. metropolitan areas with the lowest economic risk in the 2020 recession based on reported coronavirus cases, rate of hospitality employment, home price volatility, and debt-to-income ratios as compared other cities. There should be little material impact to the multifamily market as the shutdown restrictions are lifted over the coming weeks, the market here responds to the needs of a large tenant base that has few other options. Bank mortgage financing is coming back quickly with tighter underwriting standards.

Morgan Properties of King of Prussia, PA agreed to acquire a portfolio of 95 apartment complexes totaling 18,000 apartments, valued at \$2 billion, from Robert Morgan's Morgan Communities (no relation) in a joint venture for a reported consideration near \$100 million at the end of 2019. The portfolio is primarily in the upstate markets of Buffalo, Rochester, Syracuse, and Albany. The total represents about half of the apartments Robert Morgan had been planning to sell in response to federal charges of mortgage fraud. Morgan Properties acquires class B suburban garden apartments across the eastern U.S. Apartments rented to working tenants can be more stable, producing better risk-adjusted returns as compared to higher priced class A properties. A tenancy catering to working tenants with a more stable occupancy over time may produce only a slightly lower return than class A tenancies with higher rent tenants but who have more housing options available to them, and consequently a more volatile return. The ability to sell such a large portfolio in a relatively short time frame is evidence of the strength of the upstate New York apartment market and the quality of the portfolio assembled by Robert Morgan. There will be demand for well-located and managed investment grade existing suburban garden apartments going forward.

Cities in the upstate New York apartment market benefit from an inherent advantage over other similar sized smaller markets around the country as to their location in the same state as New York City. The Rockefeller Institute at the University of Albany published a study a few years ago of the statewide distribution of the revenue and spending in the New York State budget. The conclusions are still relevant today. Upstate New York provides 24% of the tax revenues and receives 35% of the expenditures. The difference, well over \$1,000 per capita, is an enormous subsidy provided by the taxpayers of the NYC metro area and helps bolster upstate New York economies. Any long-term damage to the metropolitan NYC economy from the pandemic will be immediately felt upstate.

The multifamily industry does best in regions with employment growth. The apartment market here has done well over the past 20 years even with the region's economic challenges aided by; a small multifamily inventory as compared total housing units, limited new construction, and changing demographics with new household formations that favor renter households. Rent growth has exceeded wage growth for a number of years among markets nationally pushing some tenants to rent-to-income levels exceeding 30%, a ratio indicative of financial stress, and unable to absorb further increases. The upstate markets of Buffalo, Rochester, and Syracuse had experienced enough job growth through 2019 to bring nonfarm payroll levels back to all time high year 2000 levels. If this trend continues and the effects of the pandemic are short term and employment growth eventually resumes from these levels as the economy regains its previous strength the upstate apartment market should recover easily.

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