



2021 New York Upstate apartment market - by Brian Heine

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Belveron Partners, a privately held investment firm in San Francisco, acquired a controlling interest in Conifer Realty in Rochester at the end of 2020. Conifer Realty owns 15,340 affordable housing apartments in 194 properties, mostly suburban garden apartments in upstate New York, with 40% classified as senior affordable housing. Their investment marks the culmination of founder Richard Crossed's 45-year history with the company; he started building the high-quality portfolio in 1975. Additionally, Belveron will provide equity going forward for Conifer's development projects. The company handles all aspects of the development process through construction and property management and it's this combination of capability and reputation with municipalities, regulatory agencies, and investors that attracted a takeout offer.

There are incredible financial rewards in starting, building, and selling companies that possess the kind of assets that larger companies are looking to invest in. The Conifer acquisition along with REIT Welltower's acquisition of 32 senior housing apartment complexes from Clover Management in 2019 are examples of real estate apartment companies that were started by individuals here who grew the operations over the years and sold out to institutional investors as an exit strategy. At this time, the United States is not building enough housing anywhere and large portfolios of professionally managed multifamily assets specifically oriented to affordable, student, or senior housing are in demand nationally. Conifer is a recognized leader in the affordable housing industry and Clover has developed a cost-effective independent living model for senior housing. Demand for these investments is growing unrelated to the prospects for the local economy, rentals are driven by demographic changes not tied to jobs or employment growth, typical drivers for market apartments, making these good businesses to start and own in slow growth upstate New York.

Similarly, Christa Construction sold The Hill at RIT, a 362-bed student housing apartment complex in Rochester, one mile south of the Rochester Institute of Technology, for \$35.3 million at the beginning of 2020 to OC Ventures in the largest single multifamily transaction upstate last year. Student housing buyers operate on a national scale and the underwriting looks at the size and growth prospects for the university population and surrounding neighborhood student occupancy to evaluate purchases independent of the local apartment market. OC Ventures is a Chinese student housing private equity fund that operates out of Chicago. The major State University campuses across the state along with Syracuse University and Cornell University in Ithaca have attracted new student housing projects from both local and national builders.

The upstate multifamily market includes a large inventory of suburban garden apartment properties as a share of the total market, considered a safe bet by investors, and capitalization rates near 7% as opposed to 4% to 5% nationally. Typically, commercial real estate mortgage interest rates have been priced using the 10-year Treasury as the index and even with the 10-year Treasury yield rising over the last year there has been little impact on cap rates. Any rise in cap rates is cushioned by a never-ending increase in buyer demand.

Multifamily investment properties have outperformed other comparable real estate classes with more consistent returns through the economy's cycles and this consequent lower risk attracts those investors and other investors from traditional safe cash investments that currently pay almost negative returns after inflation.

Mortgage interest rates of 3% to 4% combined with 7% cap rates and 75% leverage produce a cash-on-cash return far above other similar risk investments. Coming out of the pandemic the Fed has increased its inflation target above 2% and the gap between cap rates and mortgages rates is large enough to accommodate any near term rise in long term interest rates.

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