



2021 Buffalo apartment market - by Brian Heine

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Total multifamily sales in the Buffalo apartment market in 2020 totaled \$107 million, down from \$186 million in 2019, but better than expected after New York State's shutdown of the real estate business through the middle part of the year due to the pandemic. Cap rates are in the 6% to 7% range for investment grade apartment complexes; those properties that are professionally managed and maintained. Per unit pricing is as high as \$194,000 in the town of Amherst. There is investor demand for all classes of multifamily investment in all locations; mortgage lending is available at up to 75% leverage. Tenants have received stimulus payments from the federal government along with rental assistance from Erie County and New York State for those not working. The eviction ban is expected to be extended through most of 2021 but many of the problem tenants are either finding employment or new living arrangements so the effect on top-line income here has been manageable.

Affordable housing caps rents to ensure that tenants can live in these units while spending a set limit of their income on housing. In moderately priced rental markets like Buffalo, affordable housing, whether publicly or privately owned, can compete directly with unsubsidized free market apartments as the tenant income needed for the affordable apartment is not much different than what is needed for the competing market apartment. They don't address a lack of housing priced where average households can afford them as is the case in high priced housing markets.

The Buffalo Municipal Housing Authority will spend up to \$250 million in the next few years to renovate 1,332 apartments in three public housing complexes including the Marine Drive Apartments in downtown Buffalo. At an average cost of over \$187,000 for each apartment renovation this is close to the cost of new apartment construction in the area. The BMHA website offers a subsidized rent, no more than 30% of their income, for a three-person household earning \$48,500. People will generally pay a third of their income for housing and this amount will qualify a \$1,200 monthly rent, easily a two-bedroom market rate apartment in Erie County.

Also, in the central business district Ciminelli Development is building 201 Ellicott St., a \$60.8 million 202-unit affordable housing apartment development along with a separately financed \$6.9 million commercial building. The apartments are available to tenants at from 30% up to 80% of the AMI or Area Medium Income or \$55,900 for a family of three. The AMI is the income for the middle household in a region; there are other income limits for different family sizes. Ciminelli will use the equity from the sale of Low-Income Housing Tax Credits (LIHTC), developers sell the credits to

investors to partially fund the development and significantly reduce their own equity requirements as compared to a market rate development. The LIHTC program is available to subsidize the construction of affordable rental housing for low- and moderate-income tenants with rents capped. Tax-exempt bonds, along with other sources, will be used to complete the financing of the project. Developers make economic decisions based on how they see the market and the returns that can be generated; this project was originally planned as a high-rise luxury building but downtown rents are nowhere near the \$3 per s/f per month needed to support the unsubsidized construction cost and earn a return on their money. When evaluating the various development options to fund apartment construction, a privately financed market rate project is hard to justify where affordable housing subsidies are available with their low upfront cash requirements.

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