



2023 Buffalo apartment market - by Brian Heine

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The New York State government continues to legislate drastic changes to the way the private sector operates, especially the real estate industry. Governor Hochul's proposed New York Housing Compact housing plan is aimed at producing 800,000 affordable housing units statewide over the next ten years, the city of Buffalo and surrounding towns and cities would need to increase their housing inventories by 1% over the next three years to comply. This is thousands of new houses and apartments and since affordable single-family houses are rarely built, these will overwhelmingly be apartments. The Buffalo market has no affordable housing shortage, there is a large stock of older existing rental and for sale housing available and home to both lower and middle-income earners. There is an array of fees and subsidies available to attract builders, community organizations, non-profits, etc.; to these developments. This niche market is adequately filled by several local and national development firms catering to those tenants unable to be accommodated in market-rate housing. The law will allow developers and builders to bypass local zoning laws for those municipalities that resist the new construction insuring that housing is built in all towns and suburbs. The wealthier suburbs can offset some of their totals against for-sale single-family home construction, but very little affordable housing is built outside the city of Buffalo.

Multifamily accounts for about 10% of the housing inventory in western New York and a 1% increase over three years will add 10% to the apartment inventory, on the order of 5,000 apartments. This is an enormous amount of new subsidized competition to be absorbed. Affordable housing comes with rents limited to 30% to 80% of the AMI (Area Medium Income). A 50% AMI in Erie County is close to \$40,000 annually and supports a \$1,100 monthly rent. This is an average rent here and these new rentals will compete directly with market rentals. Affordable housing is astronomically expensive at up to \$400,000 per apartment in construction costs, near double the cost of a typical high-end market unit. Affordable refers to the below market rent the tenant pays and not the construction cost of the unit. It is impossible for private owners to offer these tenants a comparable apartment at these rents with the same capital investment and control future rents by income regardless of other expense increases. Expect tenants to flee to these new apartments. The lower end of the apartment market will disappear, privately owned apartments will be replaced with subsidized units. No new supply will be added, just a portion of the inventory will switch from market to subsidized, where the AMI falls will determine the extent, the higher the overall AMI the more the loss. New smaller households will form as singles leave households and extended families break up as each will qualify for a new affordable apartment. Expect the overall inventory to contract and market rents to rise.

Investors and managers should tighten their tenant selection procedures in anticipation of the changes to pick up the better qualified tenants as they move up. Take advantage as the government drives your lower cost competitors out of business. Subsidized tenants tend to stay in their apartment situation once they've qualified based on their income, reducing the available vacancies at any one time, and increasing the demand for market apartments. Rents have gone up significantly the last two years and this year's increase will be less, but well managed apartment complexes here are operating at near full occupancy. Recently, Governor Hochul removed the Housing Compact from the 2023 budget but expects to submit it again later in the year. The Federal

Reserve has raised interest rates nine times starting last year but the demand for multifamily investment properties remains unabated, sales in the Buffalo market totaled \$273 million in 2022.

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