



2009 Buffalo area apartment market report

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Sales activity in the Buffalo area apartment market slowed in 2008 compared to previous years with about 1,100 investment grade apartment total units sold in the city of Buffalo and the surrounding suburbs of Erie and Niagara Counties, down from up to 2,000 in previous years. The majority of the sales are garden apartments in the Erie County suburbs and average apartment complex pricing there was down slightly at \$40,000 per unit versus \$42,000 in 2007 and Niagara County sales averaged \$32,000 per unit versus \$34,000 the year before. Year to year changes in average price of a few thousand dollars are not significant considering the relatively small number of apartments that change hands compared to a total market population of over 60,000 units. Apartment average sale prices in the city of Buffalo proper rose to \$40,000 reflecting the sale of the 72-unit brick prewar apartment building at 905 Delaware Ave. for \$72,000 per apartment; other city sales averaged \$33,000 versus \$32,000 in 2007.

Mortgage funding for the \$1 million to \$3 million apartment complex of 40 or more units, a substantial portion of the area inventory, is readily available. Private cash-rich investors and small business owners continue to provide the needed equity. Institutional buyers were not active here and the conservative lending practices of the local banks never allowed a speculative run-up to develop. With conduit loans here few, the area should remain immune to the CMBS refinancing debacle expected to develop this year in the commercial real estate industry in other markets. Price and value remain in balance here, not in a need of a correction.

Apartment occupancy rates in the region remain in the 95% range with some owners reporting higher vacancy levels than the year before, rent growth remains in the 2%-3% range. The little volatility in apartment vacancy rates combined with the immediate flexibility provided by the short term nature of apartment leases allows owners and managers to react quickly to changes in local market conditions and adjust rent rates quickly to maintain occupancy. Apartment values are supported by this consistent income as compared to other classes of commercial real estate. The multifamily business as a whole benefits from the restrictions in sub prime mortgage lending with fewer tenants leaving to buy houses; however, the large scale single family foreclosure problems prevalent elsewhere have bypassed this area and home prices have shown increases in the last year.

Since 2006, top of the market sales have shown cap rates in the 7% to 8% range. The 905 Delaware sale mentioned earlier closed at a reported 7.3% cap. The cap rate, a measure of the first year yield of the investment, is the best indication of the health of the market and true gauge of buyer motivation. Strong investor demand in recent years has driven pricing to these record levels. Any weakening in cap rates as sales close through 2009 will be watched carefully as evidence of the anticipated shift in buyer sentiment. Balanced against this will be the pent up demand from those anxious buyers sitting on the sideline the last few years waiting for "distress deals" to develop.

Buyer confidence has definitely been shaken in the current environment; the real economy of WNY is weakening but not breaking down. Although the apartment market and multifamily industry in this area have yet to show the effects of the credit crisis, market activity began slowing considerably starting in last year's fourth quarter. Prices should remain stable in the coming year but transaction volume should fall as few sellers seem willing to discount their price to meet the reduced expectations of buyers.

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