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COVERING THE ENTIRE STATE OF NEW YORK

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Reasons why central New York is leading the upstate apartment rush

Last year I composed two editorials for the Journal dealing with the new surge in apartment transactions throughout upstate New York and cited these reasons for this activity: 1) The stock market debacle of 2000, 2) the ensuing plunge of CD and savings account interest rates, and 3) the nationwide hunt which then began for real estate and the higher returns they promised. With another year behind us I now see some additional factors contributing to the continued hunger for multifamily property in our marketplace. As apartment brokerage specialists we make it our business not only to make the deals, but also track all the sales within our market, and consult with the investors to determine their purchasing criterion and motivations. Here are a few more reasons investors have conveyed to us which help explain their ongoing appetite for apartments here.



Financing: Plentiful and cheap. However, not unique to our marketplace, having mortgage interest rates at a 45 year low coupled with an ample supply of lenders eager to place capital in this popular product type, makes continued apartment buying a no brainer. I have seen a few lenders stretch their

rates to under 5%, reduce their debt coverage ratios down to 1.1 and up their loan to value ratios into the high 80% range.

Diverse Economy: Though Syracuse and central New York enjoyed a strong industrial base until the late 1960s when the slow but steady drain of manufacturing jobs over the next 40 years took its toll, the economy here has proved to be surprisingly resilient and diversified. As a typical "rust belt" city, Syracuse was not unique to the flight of factory jobs to the "sun belt" and other offshore destinations, but the addition of service related industries has helped pick up the slack better than similar cities. Our location at the intersection of two major interstate highways puts this city at the crossroads of New York, and makes Syracuse an ideal site for warehousing, shipping, and branch offices. Not being too dependent on any one business or industry has allowed this area to survive amidst recession and now thrive as a result of this diversity.

Under Built: If there was ever an ideal example of "behind every cloud there is a silver lining," this would be it. There is no doubt that when the factory jobs started to go back in the 1970s as mentioned earlier, there was also a corresponding flight of population following the employment opportunities. Since those years there has not been sufficient demographics or economics at work to justify the construction of many new apart-

ment complexes. Therefore investors are finding an under built marketplace, with high occupancies, and very few newer apartments to compete against. The best part for buyers is that until something happens to dramatically reverse the population trend to one of high growth, there is little risk of a substantial increase in apartment construction.

Low Prices & Rents: These are probably more a result of some of the things already mentioned in this article, but they bear repeating because this is what I hear most from buyers outside of upstate New York. No doubt another example of the "silver lining" concept at work. The prices are lower here because the rents are lower. That may sound like an equalizer and having no value over higher profile markets like New York City and such, but our capitalization rates are also much higher. This is simply the rate of return on the buyer's unleveraged investment which is the deciding factor for most buyers. It makes more sense to buy in a cheaper marketplace with lower rents because of the possibility of more room for increases. If you can do that and still enjoy a higher capitalization rate, so much the better and that is the main reason we are so busy up here the past few years.

DestinyUSA: This grand tourist/shopping/entertainment development which has been the subject of so much speculation

these past few years is still a lure to investment here. The fate of this mega mall has been tabled to the fall unless a special session of the state legislature is called to pass the needed bill. Should this project be completed in its full glory, the impact on the entire region would be unprecedented and apartment owners might feel like they hit the lotto. All joking aside, even if half of what they are talking about becomes a reality in the next few years, apartment demand, rents, and values will rise substantially in direct correlation to their proximity to the DestinyUSA complex.

Evidencing central New York's lead in apartment sales due to these factors I have compiled the following numbers for the 10 county area around Syracuse: There were 25 sales in 2000 and 34 sales in 2001, and out-of-state buyers accounted for one-fourth of them. There were 37 sales in 2002 and more than one-third were out-of-staters. Halfway into 2003 we have counted 30 sales which may double the 2002 total by year end and so far half of the buyers are from other states. The secret is out but there will be ample properties becoming available and we at Hemisphere will continue to service our clients on both sides of the transaction.

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