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# Growth Markets for 2015: Upstate New York

**Secondary Cities in the South and Northwest Grab the Headlines, But Upstate New York is Beginning to be Recognized for Stable Recovery and Urban Reinvention**

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As the United States real estate market inches towards recovery, low interest rates and high prices are keeping many investors out of the big cities. A good number of industry experts agree that the current climate is ripe for investment in secondary markets where property is less expensive, yields are higher and potential for growth uncapped. However, secondary markets can be more susceptible to market fluctuations and industry change. Savvy investors who pay close attention to economic trends can mitigate these risks and reap rewards in the long term. While secondary cities in the South and Northwest have attracted a good deal of headline attention, upstate New York is beginning to be recognized for stable recovery and urban reinvention.

When upstate New York's Erie Canal was built, opponents, of which there were many, nicknamed the project "Clinton's Ditch" for then New York Governor DeWitt Clinton. The project was massive, expensive and required feats of engineering that were considered almost impossible at the time. But, utilizing the period's most advanced engineering technology, the Canal was successfully completed and ultimately became the nation's most effective way of moving goods west. The Canal created jobs, industry, wealth and a giant population surge along its corridor. The cities of Albany, Syracuse, Buffalo and Rochester saw major building projects including an impressive network of public and private colleges and universities. (Today, New York State boasts 307 colleges and universities – more than any state aside from California.) In the 20th century, modern highways opened the country to the movement of goods outside of waterways, and upstate New York experienced significant economic loss. As jobs moved south, the population dwindled and property values stagnated.

Today, technology is again sparking economic growth along the cities of the Canal. In 2004, the SUNY College of Nanoscale Science and Engineering (CNSE) was founded in Albany. CNSE served as the foundation of economic resurgence for the Albany area attracting other major players in the nanoscale industry including GlobalFoundries who built a major chip manufacturing plant just north of Albany. Building upon their tremendous success with attracting partners and investors, CNSE expanded to other State University locations in Buffalo and Rochester, and is currently building a location in Syracuse. In March 2014, CNSE merged with Utica's SUNY Institute of Technology to form SUNY Polytechnic Institute. SUNY Polytechnic will serve to maximize SUNY resources and further position upstate New York as a technology hub.

Players in other high tech industries—most notably, green technology and healthcare—followed the nanotech migration to upstate New York where they can be close to centers of higher

learning for recruitment and research purposes. The cities of upstate New York rank within the nation's top innovators: a 2010 TechAmerica Foundation report ranked Albany as "the third fastest growing high-tech job market in the country"; the Brookings institute ranked Rochester 13th out of the most innovative cities in the U.S. in 2013. Albany, Syracuse, Buffalo and Rochester were all among cities ranked by Forbes as the "Best Places for Business and Careers."

Buoyed by economic recovery and the growth of the tech industry, the job market in upstate New York has grown steadily over the past decade. Job loss has been relatively low: during the recession, upstate New York lost 2.1 percent of its jobs versus 5.2 percent nationally. Because job growth has been in the technology field, a large percentage of jobs created have been white-collar. White-collar job growth, and the accompanying population growth, normally occurs at a moderate, but sustainable, rate when compared to blue-collar job growth. Texas, New Mexico and North Dakota have the highest job growth rates in the country, but the jobs created in these states have by-and-large been blue-collar: these states have seen a decrease in the percentage of white-collar jobs. Companies are more likely to lay-off unskilled blue-collar workers making blue-collar job growth more unpredictable and volatile in the long term. Upstate New York's white-collar job growth, by contrast, may be less impressive in terms of sheer job creation numbers, but jobs created here will last. Especially when considering the huge expense of building specialized sites for the production of such high-tech items as a semiconductor.

Upstate New York did not experience a housing boom prior to the recession which contributes a great deal to the stability of the market. With little competition, multifamily development has remained slow and steady throughout the past decade. Only a small percentage of occupied multifamily units were developed within the past decade – most apartment units throughout upstate New York were built before 1980. While average national home sales rose over 75 percent between 1995 and 2005, sales increased just 15 percent in upstate New York. Local builders operate with caution as evident by the low incidence of subprime mortgages here during the housing boom.

Multifamily demand in upstate New York will continue to rise as the tech industry grows, in part, because many tech professionals are Millennials. Employment opportunities are the number one reason people relocate, according to a 2012 Apartments.com survey, and it is likely that recent experience with poor job and housing markets will influence Millennials when it comes to where and how they live. In fact, a recent Mass Mutual survey revealed that Millennials view home ownership as far less important than the Gen X or Boomer generations. At least for now.

In addition to apartment demand among Millennials, upstate New York's Baby Boomers are retiring and seeking the carefree lifestyle of an apartment community. Many Boomers in upstate New York are becoming "snow birds" who spend part of the year in the South where they spend a portion of their income on housing as well. Retirees, like Millennials, often look for walkable urban settings close to city attractions. Supporting this notion, a recent Albany Times Union article noted an increase in urban versus suburban home sales in the Albany area. Boomer and Millennial preference has led to redevelopment of former industrial or commercial property, and

development in transitional or emerging neighborhoods where less expensive land allows developers to price units at a more affordable level.

As Albany, Rochester, Syracuse and Buffalo have experienced moderate population and job growth, underdevelopment has kept demand constant. Despite demand, rents have climbed at a conservative pace. This past year, average national rents increased 3.4 percent while rents upstate rose 1.4 percent in Albany, 1.3 percent in Rochester, 2.9 percent in Syracuse and 9.4 percent in Buffalo.

While the multifamily market may begin to taper off nationally, there is room for growth along the Erie Canal. Once leaders in industrial technology, the cities along the Canal Corridor are experiencing a renaissance putting them at the forefront of 21st century innovation. Moderate job and population growth has earned Albany, Rochester, Syracuse and Buffalo less attention than some of the country's boom towns, but growth here is more likely sustainable. With low competition and constant demand, upstate New York is a hidden gem in the multifamily market.

*I've got a mule, her name is Sal  
Fifteen miles on the Erie Canal  
She's a good old worker and a good old pal  
Fifteen miles on the Erie Canal*

*We've hauled some barges in our day  
Filled with lumber, coal, and hay  
And we know every inch of the way  
From Albany to Buffalo*

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