BULLISH ON BUFFALO

No longer a Rust Belt afterthought, Buffalo is undergoing an economic rebirth that has investors and developers looking at the city with a renewed sense of optimism

Cleveland, Detroit, Pittsburgh, Buffalo. For decades, these cities have been associated with urban blight and massive population loss on a good day, and economic death on the other 364. Once the wealthiest part of America, the Steel Belt began its decline as far back as the early 1970s, as deindustrialization and the then-little-known concept of free trade began to shift the world economy. By the mid-1980s, when falling iron prices crossed paths with the increasing manufacturing might of China and Japan, the writing was on the wall.

Since then, these cities have largely been viewed as no-go zones of unoccupied buildings and similarly abandoned hopes. Left behind by an evolving global economy that no longer needed them in order to function or profit, the cities of the Steel Belt were doomed to sit and corrode until they became the Rust Belt of recent memory.

But just as Hamilton, Canada's own contribution to industrial decay, has seen its fortunes reverse over the past five years, the result of a modernizing economy and long-suppressed real estate prices, the larger Rust Belt cities are also enjoying a thrilling rebirth, none more so than Buffalo.

Eds and meds

The deindustrialization of Buffalo left the city with an immense, useless manufacturing infrastructure and a blue-collar population with no other industry to turn to. Depressed and depressing, Buffalo sat inert as its residents fled and its real estate prices plummeted. But as has been the case in a number of other American cities with cheap real estate and a low cost of living, Buffalo's hardships would prove to be the launching pad for a new economy.

"When that market started to lose jobs, it was a bit of a free fall because there was nothing to take its place for a while," says Dennis Cisterna, chief revenue officer at Investability. "Now what you've seen is, although it's taken a little bit of time, it's much more diverse. It's all about the eds and meds."

The amount of investment that has been generated by Buffalo's healthcare and education industries is staggering. The Buffalo Niagara Medical Campus, a 120-acre site near downtown that is already home to 12,000 employees, will soon employ more than 17,000 following the completion of the University at Buffalo's new $375 million Jacobs School of Medicine, Kaleida Health's $270 million Women and Children's Hospital, and the $50 million expansion of the Roswell Park Cancer Institute.

The medical industry's growth is bolstered by the city's extensive education sector. The University at Buffalo, with more than 28,000 students across three campuses, is the largest public university in the state of New York and is just one of 20 colleges and universities in the area, contributing to a student population of more than 110,000. The university's UB2020 project, a comprehensive growth strategy set to increase the school's profile and economic footprint, is expected to create

Employment (2012): 554,200

Employment (2016): 568,700

Unemployment rate (February 2017): 5.9%

Vacancy rate (Q4 2016): 5.17%

Median rent (Q4 2016): $1,041

Median home value (Q4 2016): $135,468

Out-of-state investor-owners: 3,606

Source: Investability

1,000 more jobs at the university, along with 2,000 private-sector research jobs and 1,600 construction jobs.

Buffalo's economy is growing in other areas as well. The city has seen more than $8 billion worth of construction projects either initiated or completed since 2013. (That figure balloons to $19.2 billion when including projects in the entire Buffalo-Cheektowaga-Niagara region.) The RiverBend solar panel production facility, the largest of its kind in the western hemisphere, is set to begin producing solar roof tiles and solar cells for Tesla in June 2017 and will create 3,000 permanent jobs. IBM has also committed to bringing 500 jobs to its new 100,000-square-foot information technology centre.

For investors, the beauty of Buffalo's economic growth is that it is taking place in industries that generally produce highly desirable renters: well-paid professionals looking to put down roots for a few years at a time. The challenge comes in trying to find the right property in a city where the economic activity has yet to result in obvious gentrification.

Southward and beyond

Michael Sherwood, owner of C&M Property Rental, has managed properties in the Buffalo area for nine years. He has been pleasantly surprised by the turnaround the city's real estate market has been experiencing.

"I really think it's on its way back," he says. "In the last four to five years, investment property has really boomed in that area. The last couple years have been amazing."

Sherwood says two areas worth investigating are Elmwood Village and Black Rock. Elmwood Village is the more expensive and established of the two neighbourhoods, its sprawling older homes a glimpse of what Buffalo used to be. Homes in the area can rent for as much as $1,500 a month, but the median sales price is high enough that investors may want to buy in the adjacent neighbourhoods, where homes can be found for well under $200,000.

Black Rock, on the other hand, is on the way up. "If they're focusing on cash," Sherwood says, "Black Rock and some of the east side areas are becoming revitalized. There are a lot of flip investors and other folks in the area who are going city block by city block and pushing everything out."

Black Rock is highly affordable, with many rehab-able properties selling for under $50,000, but its status as a not-yet-turned neighbourhood poses some difficulties.

"If you're going for the cheapest housing, it'll produce the highest yields, but it's also the most risky in terms of tenant turnover and vacancy," says Cisterna, who encourages investors to look to the city's southern region, where spending $75,000 to $150,000 should allow investors to pull in between $1,000 and $1,500 a month in rent.

"The south side of the metro area has generally performed better when it comes to more expensive properties and lower vacancy, which are really the two hallmarks of risk-adjusted return," he says.

Both Cisterna and Sherwood say investors would do well to analyze properties that fall outside the Buffalo city limits in communities like Cheektowaga and Lackawanna.

"Lackawanna was an area that was on a downturn, but in the last couple years, the value you can get there is amazing," says Sherwood, who estimates that a four-unit building purchased for $100,000 in a community like Lackawanna can bring in $2,000 a month in rent.

Mr. Stinson goes to Buffalo

One developer with a keen eye for potential is Harry Stinson. Stinson, who single-handedly introduced Torontonians to loft-style apartment living and blew minds by completing the 1 King West project, has been investing heavily in Hamilton for years. He sees in Buffalo a similar combination of low prices, grand architecture and underappreciated amenities.

Whereas Hamilton knocked down many of its charming old buildings to make way for what Stinson calls "godawful plazas" and "false urban renewal," he says Buffalo "survived, so the core and most of the residential neighbourhoods have a lot of very grand homes and buildings. You walk around, there's imposing buildings everywhere."

One of the most impressive is the Buffalo Central Terminal, which sat abandoned for almost 40 years until Stinson recently purchased it for $2 (that is not a misprint). The BCT, built on the same scale as Grand Central Station in New York by the same company and architects, will be the centrepiece of what might be Stinson's most ambitious project to date.

When completed, the BCT will house 300,000 square feet of office space, brewpubs, an event space large enough to hold 10,000 people and, because it's a Stinson project, a half-mile-long baggage terminal converted into lofts. "It's like if Union Station was turned into the Distillery District," he says.

But in order to secure the significant tax breaks that make the $100 million project feasible, Stinson cannot fractionalize ownership of the property, meaning investors cannot directly purchase its lofts or office space. Instead, Stinson devised an alternative method for investors to reap the rewards of his mammoth project. All he had to do was buy a 490-room hotel.

"If you have a well-located, well-run, full-service functioning trophy hotel, the thing's a gold mine," he says. "It's not a simple thing to do, but if you have the resources to do it, it mints money."

The hotel in question is the Adam's Mark, already fully operational and busy, which Stinson plans to renovate and modernize. The hotel will serve as the nerve centre for the events that take place in the BCT, handling the reservations, food preparation and accommodations for the weddings, trade shows and other large-scale events no other facility in the city has the capacity for. Functions at the BCT will funnel guests directly into the hotel.

> "There's a lot happening in Buffalo. There's a new demographic, a new economy, and the housing market has not caught up"

By purchasing a room in the Adam's Mark for $99,000, investors are not only guaranteed a 5% base minimum return with no taxes and no condo fees, but are also entitled to a portion of the profits generated by both the hotel and the BCT – from minibar sales to the substantial sums brought in by the dozens of colossal events that will take place there each year.

"In practice, they will be looking at 15% to 20% annualized return with the 5% base minimum," Stinson says.

In addition to the hotel-terminal project, Stinson is also in the midst of acquiring large tracts of land around his new properties in an attempt to reinvigorate an entire neighbourhood in a city he feels is misunderstood.

"It has a lot of shabbiness, but you get to know the city," he says. "There's a lot happening there. There's a new demographic, a new economy, and the housing market has not caught up." ■

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