

Monday, June 13, 2005

Apartments Are So Popular, Rents Likely To Rise

By Autumn Gray

Assistant Business Editor

Albuquerque's apartment market doesn't seem fazed by the out-of-whack housing market.

Occupancy rates, at about 93.3 percent, are holding steady or slightly rising.

People may be moving out of apartments into now-affordable houses, but retirees and very young adults are taking their place.

Plus, apartments just aren't being built in the numbers that homes are.

"The absorption rate could include 1,200 new apartments per year given the natural influx of jobs and residents moving to the general Bernalillo County area, but we're maybe building only half that number," said Steven J. Smith, executive vice president of the Apartment Association of New Mexico.

According to the association, the average rent per square foot is 76 cents. That's \$684 for a 900-square-foot apartment—a price that may soon be on the rise.

The 7 percent in vacancy that does exist will likely be filled in the next three months.

"As we get into June, July and August, things will tighten up," said Bobbie Burkdoll, manager/broker at The Apartment Store, an apartment locator service. "We're going into the busier season."

Other than the annual summer surge, she does not see much variation in today's market over the last several years, she said.

"We might be up a percentage point."

Todd Clarke, president and CEO of New Mexico Apartment Advisors, says she's right on target.

Occupancy has been creeping up about a percentage point each year, he says. "We're right above equilibrium, so significant rent increases should be expected next year."

He estimates a 5 percent increase at first, followed by 7.5 percent to 10 percent increases annually.

The last time Albuquerque saw jumps like that was in the early '90s, Clarke said.

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Market Glut Has Owners Slashing Prices to Lure Tenants

By Autumn Gray

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Clayton Bryan recently told his landlord he's moving out of the house he's been renting on Albuquerque's West Side. He figures he can rent a similar house for hundreds less.

He probably can.

It's a renter's market in Albuquerque, with houses available at sharply discounted rates.

Many are owned by California real estate investors buying local homes and renting them out while the homes appreciate.

Home rental prices are down by as much as \$150 to \$200 per month. Often, a house sits vacant for several months as opposed to weeks, and property management firms are so frenzied with the newfound business, some are turning away clients.

Bryan, 36, who is paying \$1,100 a month for a 1,600-square-foot house, believes he can get a similar home in a new subdivision for between \$900 and \$950.

"I either paid too much originally for what I'm in, or there's some competition for rates," said Bryan, co-owner of investor adviser company Prudent Wealth Management.

Kate Southard, owner of Kate Southard Real Estate, recently had to reduce one of her own rental properties by \$100 a month to get an occupant. In previous years, she shaved \$25 at most, and rarely.

"Today, we have thousands more single-family rentals than we did, say— well, you pick a time period," said Jon McCormick, a broker with AMMRE, one of the largest local property management firms.

"For a good (rental) property, values are down maybe 5 to 7 percent," he said.

Too many homes

Albuquerque's invasion of real estate investors has decimated the number of houses for sale, inflated their prices and created an oversupply of rental homes.

The result: a market that's out of whack, favoring sellers and renters.

"The thing I'm telling (investor) buyers is, 'Be prepared to probably pay a little more than market (price), and be prepared to take less in terms of how much you're gonna get in rent,'" said Southard, who has several clients from California looking for local investment properties.

And the glut of rental houses could grow. Several new subdivisions are scheduled for completion this fall, and they'll inevitably contain rental properties owned by investors.

Many of those are on the West Side and in Rio Rancho, where for-rent signs already poke out of lawns like so many pins on a pincushion.

"We've found that there's a lot more available on the West Side and that you can get more for your money on the West Side," said Heather Howard, a 21-year-old University of New Mexico business student. She and her boyfriend are looking to move from their East Side apartment into a house with a yard for the dog. "There's a ton of houses. Everywhere we go, it seems like there's a house for rent."

"A ton" is about as precise as the numbers get because no one keeps track of vacancy rates for home rentals.

But Monterey Property Management has so much business it's no longer taking new clients, said broker and owner Lisa Willow. The firm has turned down requests to manage 100 units in the past month, and she estimates it may be another four months before that policy can change.

"Until we get a handle on this excess, we're not going to take anything new," Willow said.

The 2-year-old Kellogg Agency Inc. has grown from managing five properties in May 2003 to 125 today, all in Rio Rancho and Northwest Albuquerque, said company vice president Jennifer Kellogg in an e-mail to the Journal. Some of those homes have sat vacant since February.

"Investors are being forced to lower their prices— not by \$25 increments, but \$100 increments— and are still having a hard time finding qualified tenants," Kellogg said.

"It's a tenant's market. Tenants can choose which floor plan they want, what color carpet they want, whether the master bedroom is in the front or back of the house. They are in the driver's seat and there is A LOT of inventory to choose from."

Marc Banner, president of the National Association of Residential Property Managers, says the rental market is that way all over the West.

In Boise, Idaho, where NARPM is based and where investors are also swarming, rental prices are off by about 25 percent due to oversupply, he estimates.

Going west

Karen Bean, 31, is moving to Rio Rancho from Las Cruces with her husband because of his job transfer. They initially wanted to live in Albuquerque but found rents were less west of the river.

"I found that the ones in town, in Albuquerque, were older homes and needed more upkeep," she said.

Living farther out is worth getting a newer home cheaper, she said.

Still, the couple, who own a house in Las Cruces, will be paying about \$250 more per month in rent than what they did on their mortgage.

With interest rates still at historic lows, mortgages are often the same or less than rents, meaning property managers compete with the for-sale market as well as other rentals, Willow said.

Many, like Bean, need a rental for only six months, though Bean said she could not find anyone willing to rent a house for less than a year.

Willow says these "transition" renters are eclipsing "stable" renters. They are moving from out of state and want to shop around before buying a home; they are moving to the city for short-term employment and buying doesn't make sense; or they are needing a temporary residence while looking to buy, or while building, a house.

Her company has averaged a 6 percent vacancy rate on its properties this time of year during the last three years but is now up to about 20 percent.

Still, AMMRE's McCormick says don't worry; be happy Albuquerque is on the real estate radar.

"So what if you have to rent a house at \$50 less? The appreciation on the house is making up for that several times over."

Meanwhile, the owner of the rental home Bryan is moving out of has put up a for-sale sign.

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