

MULTI-FAMILY

Higher returns lure West Coast buyers to apartments

BY MEGAN KAMERICK | NMBW STAFF

In the Albuquerque multifamily market, 2004 was the year of the California buyer. Money from California investors poured into this market seeking higher rates of return after pulling out of an overheated West Coast market.

There were 229 multi-family properties sold in 2004, according to NM Apartments Inc., which collects data on apartment markets around the state. The average is about 158, says Todd Clarke with NM Apartments. The momentum seems to be continuing into the new year, with 30 sales already for 2005.

"No one really has a guess as to what the highest price will be and how long it will last," Clarke says. "We had two sales this year that topped out at \$100,000 per unit. But even stuff that was 20 or 30 years old got \$60,000 per unit."

Kjersten Paschall, with Coldwell Banker Legacy, says buyers don't realize how fast the market is moving here. They want pictures and more information before putting an offer on a property, and by that time, it's gone, she says. She now has buyers who put in offers on a project, sight unseen, then do their due diligence work with inspections and walk-throughs.

One of her clients from Connecticut has made about five offers here and only succeeded in placing one property under contract.

"One property was on the market one day and it got four offers," she says. "He's an all-cash buyer, and they declined it. It's just a real fast moving market."

Most of the buyers are private investors, says Anita Maestas with CB Richard Ellis (NYSE:CBG).

"The REITs (real estate investment trusts) are moving out of secondary markets and we're seeing private capital investors wanting to come in here," she says. She usually gets 8 to 10 offers on each property listed. "The cost of doing business in California is getting out of control, so business sees Albuquerque as an opportunity to grow business fast. Also, people are relocating here and that has

helped to spike the market and spike investors' interest in it.

Albuquerque properties have a higher capitalization rate (return on investment) than overheated markets such as California, but all the interest is starting to drive those down.

"We used to be a 9, 10, 11 percent cap rate market," Clarke says. "Now we're a 6, 7 and 8. And these are the exceptions. One thing is — we haven't sanitized those numbers, so many of the apartment sales with higher rate caps, we think they're actually lower because not all the expenses are taken out."

Maestas says her firm has been selling properties with cap rates in the low 6 percent range. "We were normally in the 7 or 8 range," she says.

The scramble is exacerbated if buyers have sold property somewhere else and are desperate to plow the proceeds into something else through a 1031 Exchange so they won't have to pay taxes, Paschall says.

"There's a lot of buyers and not a lot of product," she says. "The product out there is usually in bad shape and doesn't make sense with the numbers, so the alternative is to buy at a high price or pay the tax." Many buyers want fourplexes, she adds, because they can use a mortgage product to finance it and get a 30-year loan at a cost much less than a commercial loan. Of the 229 units sold in 2004, 107 were fourplexes, according to NM Apartments.

The sellers in this market tend to be both institutional, such as REITs, as well as small investors. Most sellers see it as an opportunity to get out of the business, Paschall says.

Some buyers are looking for properties where they can invest money and nurture them and generate revenue that way, Maestas says. Others are looking for the golden eggs — good solid properties.

How long the buying binge can last is anyone's guess, but the supply isn't all that deep here, say experts, and new construction isn't happening on any large scale except for deals using low-income tax credits as part of the financing formula. Also, D.R. Horton is building some duplexes near

Ventana Ranch, Paschall says. There is definitely a need for more multi-family. Clarke says, but it's difficult to get the land, partly because the city makes it difficult to find appropriately zoned parcels, and partly because apartment projects are often unpopular with neighborhoods.

"We would sell all day long (if we had) brand new fourplexes and get \$500,000 per building," Clarke says.

Most of the multi-family construction is on infill sites in established neighborhoods or in Downtown, with developers such as Sean Gilligan, Infill Solutions and the Historic District Improvement Company building condos or lofts.

Many new projects are low-income tax credit deals by developer **GSL Properties** from Portland, Ore., Clarke says. **GSL** built the Villa de San Felipe apartments on Coal Avenue. The firm has several more in the works in Albuquerque and in Rio Rancho, he says. These are partially funded with tax credits, which require a certain number of units to be reserved for low-income renters.

One of the newest apartment projects to come on line during the year was the Huning Castle Apartments near 15th and

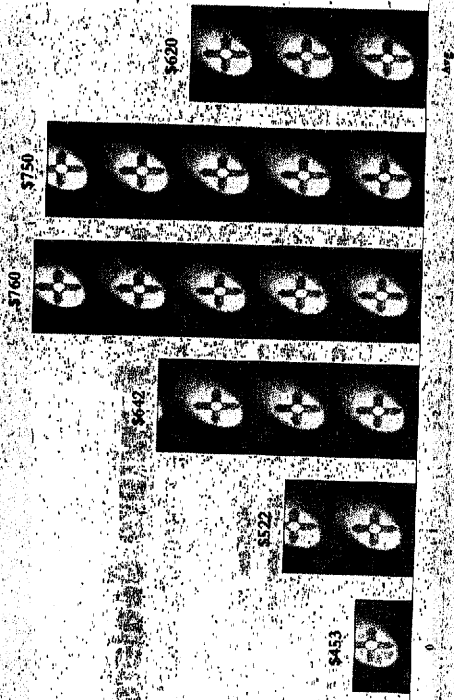
Central Ave. SW. Also, developer Rob Dickson is finishing out the **Lofts at Albuquerque High** and opening more units in the Huning Highland neighborhood along Central Avenue just east of Downtown.

Continued population growth, constraints on land use for multi-family projects and rising rents are helping keep vacancy rates hovering around 94 percent. The average rental rates in the city range from \$453 for an efficiency up to \$750 for a four-bedroom, although those vary by geographic location. The far NE Heights command the highest average rent for a 3-bedroom units at \$1052, according to NM Apartments.

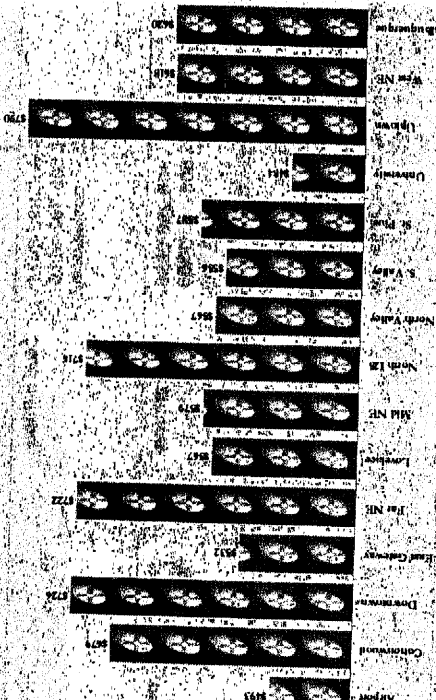
Rents have been going up, but the low interest rates have held this in check somewhat as more people qualify to buy homes rather than rent, says Maestas. However, as interest rates go up and there is continued job growth here, occupancies will likely rise and bring corresponding rises in interest rates, Paschall says. "Plus everyone is buying these fourplexes at a premium," she adds. "So I think the rents will have to go higher."

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Average apartment rent per month by # of bedrooms



Average apartment rent per month by submarket



SOURCE: NM APARTMENTS INC.