

# In no mood for Moody's report

A great real estate broker once said, "If you have a piñon in one hand and a piñon in the other hand, know what you have? A difference of opinions."

Unfortunately, that is a New Mexican truism that most people out of state would "no comprende." Regardless of recent articles published, the real estate sky is not falling on Albuquerque.

A recent report by Moody's Investors Service, a national credit rating company, indicated that the apartment and office sectors in Albuquerque were the worst in the country. So, is this a case of the all-knowing, national credit rating company versus the only-seeing-the-trees local brokers?

We don't think so.

The second rule of real estate (after location, location, location) is that your conclusions are only as good as your data. We don't envy Moody's. It has to collect data on the top 100 Metropolitan Statistical Areas (MSAs) in the country, often from different data providers, some who take into account all buildings, others only Class A, or buildings larger than 10,000 square feet — you get the idea.

Thus, there is no "standard" for data collection on a national level, although many of us would welcome one.

All the local broker has to do is collect information in a non-disclosure and relatively small population state with a large geographic region.

In the case of Housing Resources/NM Apartments Inc., this has led to the creation of a database containing some 77,000 units in 5,396 different apartment communities in Albuquerque — a piece of cake to collect compared to national data collection.

As local brokers and consultants, we realize all real estate is local and that the data collection process involves tracking every apartment — duplexes up to the big units, finding every building permit, every planned building, weeding out conflicting data and making an assessment based on the most accurate information possible.



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One example is that the city of Albuquerque reports condominiums as "multi-family," which, if not filtered out of the multi-family (apartment) supply, could lead one to the incorrect assumption that there is too much multi-family planned in the near future.

In 2003, Housing Resources/NM Apartments Inc. was hired by the city to analyze and determine the most viable use of two specific sites. This analysis included looking at the Albuquerque MSA and making a determination of the strongest property types.

The 130-page analysis can be found at [www.nmhousingresources.com](http://www.nmhousingresources.com), but the conclusion was that in today's market, retail is the most resilient property type, with an immediate demand for new construction, followed by new apartment development (which is not currently keeping up with this city's 1,076 units of demand per year), followed by lodging, which is making a stronger comeback post-9/11 than most MSAs, followed by a lagging office market that has a four- to five-year supply of office space.

Lest you believe this is an esoteric conversation about real estate data, reports like this influence the decisions of real estate investors.

It will become more difficult to finance projects here because underwriters will have to take this report into account.

The author of the Moody's report states that it should serve as a "heads up" to investors in the Albuquerque real estate market. But, what purpose do the article and report really serve?

Good investments exist in weak markets, but there can also be bad investments in good markets. Unfortunately, the results of macro level studies like this lead to increased costs of capital, lower loan amounts, tougher underwriting and higher costs to consumers.

The lender/investor approval process also might take longer. And, in some cases, important projects might not get built ever. If the information on the market is correct, then this should act as a necessary brake on development activities.

If, on the other hand, this information is incorrect, but put into action, then it acts like a wall — stopping all development, leading to increased rents and the creation of a crisis in affordable housing like Albuquerque witnessed in the early 1990s.

The conclusion? For the past 15 months, Albuquerque has been one of the nation's most vibrant real estate markets and it continues to attract more investors looking to buy than there are sellers looking to sell.

This "buyer's market," coupled with low interest rates, has reduced actual rates of return, at the time of purchase, to all time lows — an indication of a market where investors believe the right real estate dynamics exist — some job growth, minimal supply and strong demand — factors which lead to stabilized occupancy rates, increased rents and higher projected returns for investors.

*Todd Clarke, CCIM, Housing Resources/NM Apartments Inc., and Doug Chaplin, an independent real estate professional, have a combined experience of 35 years.*

*Editor's note: Emily Esterson is on vacation. Her column will resume when she returns.*