By Donna Kimura

Steady economy, new lofts boost Albuquerque market

Albuquerque – The apartment market here hasn't experienced many highs and lows lately. But its steady performance is now paying off, piquing investor interest in New Mexico's largest city, according to several leading brokers.

"There's confidence in the market," said Bill Fox, senior investment officer for Hendricks & Partners in Albuquerque. He recently negotiated the sale of the 239-unit Sandpiper Apartments for $9.26 million, or $38,775 per unit.

Historic tax credits were used to convert an old school into The Lofts at Albuquerque High.

Much of the investor confidence stems from the city's stable economy. Albuquerque is home to Kirtland Air Force Base, the University of New Mexico and the Sandia National Laboratories, all long-time, steady employers. There's also a growing high-tech industry in the city.

At the same time, there has been limited multifamily development, helping the apartment market recover from a slump in the late 1990s. The metro area of 700,000 is surrounded largely by federally owned property, and officials recently increased the cost of building permits by 55%. Several of the recent multifamily projects have been affordable developments using low-income housing tax credits.

Demand for 1,076 units exists, according to Todd Clarke, a principal of NM Apartments, Inc., a brokerage firm. In a good year, the city may see about 600 new units. In a slow year, it's 200, he said.

Just 93 units were completed in the second quarter, according to Hendricks & Partners. The pipeline continues to look constrained; building permits were issued for a little more than 800 units through the third quarter.

The vacancy rate has been around 5.5%, and rents, which average $565, remain flat. Concessions, however, have all but disappeared.

"There's probably fewer than 1,000 new units in store next year, which will likely lead to further strength in the market," said Steve Monroe, managing director of CB Richard Ellis' Albuquerque office. His firm recently sold a 472-unit apartment building for Equity Residential to Case & Associates out of Tulsa. It is the firm's first foray into New Mexico.

Seventeen offers were made on the mid-1980s property, a strong indication of investor interest.

Clarke, who expects solid rent growth over the next two to three years, said every deal is receiving six to 12 offers. He attributes the multiple offers to low interest rates and Albuquerque's economic stability, noting, "We've never been a big boom or bust town."

In addition to new construction, the market is also seeing conversions.

Historic tax credits were used to redevelop an old school into The Lofts at Albuquerque High, the city's first big loft project.

The high school's closure in 1974 was followed by several failed attempts to convert the property. Many involved retail or commercial enterprises. Developer Rob Dickson, however, saw potential in a residential project. He's being proven right.

The 70-unit project, which features blackboards in some of the units, opened in phases with the final units completed in July. The property was 100% leased about four weeks later, said Dickson, owner of Paradigm & Co. Rents range from $485 to $1,260.

Collateral Mortgage in Atlanta provided a $3.2 million permanent loan. Developer-funded historic tax credits provided $1.2 million. The city of Albuquerque also provided a $1.9 million participating second mortgage, meaning it will be repaid from project profits, as well as another $1.8 million in construction funding. First State Bank of New Mexico and Fannie Mae extended a $2.4 million construction loan.

The success of The Lofts at Albuquerque High is spurring more loft developments; at least four are currently in the pipeline. ■

rent growth, but at least they're not falling back like we're seeing in other submarkets."

Hooks stressed that the Austin market's long-term outlook remains bright, as the state government and University of Texas continue to play stabilizing roles. The start of Austin's eventual recovery may well lag behind more diversified economies, but once the ball gets rolling, the area tends to recover quickly, he observed.

While the Austin market is still feeling the impact of the tech sector's collapse, a modest uptick in tenant demand has at least temporarily started pushing occupancies back up from a near-term low of 90% earlier this year. But with another 9,500-some units coming onstream over the next several months, that improvement "doesn't look sustainable through the year ahead," said Greg Willett, research director at M/PF Research.

> A MODEST UPTICK IN TENANT DEMAND HAS AT LEAST TEMPORARILY STARTED PUSHING OCCUPANCIES BACK UP FROM A NEAR-TERM LOW OF 90% EARLIER THIS YEAR.

Investors have tended to shy away from Austin much more than from other Southwest markets, Hooks noted. Thus, while sales here hit a record overall per-unit average of just under $57,000 last year, the rate has fallen to $52,000 this year as transaction volume has waned noticeably, according to the locally based Investors Alliance. The Class A average is down almost $10,000 per unit, to about $73,000.

The median apartment sale capitalization rate during 2002's first eight months was a lofty 9.8% in Austin – compared to the low- to mid-8s seen in Dallas/Ft. Worth, Houston, San Antonio, Phoenix and Las Vegas – according to Real Capital Analytics. ■