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Investors Snap Up Albuquerque Properties and Push Prices Higher

By Autumn Gray

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Albuquerque real estate agent Norm Merlock sold 24 houses worth a total \$4.6 million in one weekend last month.

None went to local residents.

Instead, all of the buyers were California real estate investors.

Such sales are part of a trend that home builders and real estate agents say is driving up prices in the Albuquerque metro area and making it more difficult for local buyers to find homes.

"I've seen properties that shouldn't sell for more than \$150,000 go for \$200,000," said John Sheffer, a real estate agent with the Vaughan Company Realtors.

Local real estate offices first saw the increased interest here about seven months ago, and activity has escalated since.

Now it's not uncommon to spot groupings of California license plates at local home building sites.

"In February, we started seeing actual mini-vans (full of investors) drive up to our model homes," said John Eberle, director of corporate marketing for Raylee Homes/Vantage Homes.

A number of out-of-state investors have done extensive research on Albuquerque, pegging the city as a lucrative real estate market because it's cheap, attractive to businesses, and has a four-year university and a large military base.

Investors predict big companies with operations here, such as Intel, Eclipse Aviation and The Gap, are the front-runners to further economic development—the kind that brings young families needing a home and often wanting to rent at first.

Many even say low crime, compared with California, is a factor, and the mountain views and climate are the cherry on top.

"The secret of secrets is almost out," says Richmond Brock Sr., an investor out of San Jose, Calif., with 18 years in the real estate business. Using equity from a West Coast house now worth \$750,000, he wants to buy three to five houses to rent out.

"You can get a brand new 2,000-square-foot home for 150,000 to 160,000 bucks, with a view of the mountains. Everything is clean and new. You don't have all the crime of California. It's safe and secure for the grandkids, and you have all the high-tech moving in like Intel."

While real estate agents for the most part are overjoyed about the additional clients, some local builders are not so thrilled.

In fact, several large builders have instituted policies restricting investor purchases, such as requiring higher deposits or putting a cap on the number sold to investors in a single community. One builder flat out refuses to sell to them.

The reason: Developments are more attractive to buyers if they're filled with families

who have purchased their homes and want to put down roots.

Growing trend

Nationwide, investment in real estate has grown as a lucrative alternative to the stock market due to its tax benefits and continued appreciation in most areas.

A recent study by the National Association of Realtors shows one out of every four home sales in 2004 were to investors, a 14.4 percent increase over 2003.

"It's coming this way (to Albuquerque) from some other markets— i.e. Las Vegas and Phoenix— where the investors have just been out there buying everything that they could," said Mark Kinsley, president of KB Home, New Mexico.

Prices, especially in Las Vegas, Nev., have already escalated beyond what the market can bear, stalling overall home sales. So the popular investment spots now include Albuquerque, Colorado Springs, Tucson and Boise, Idaho.

The majority of the investors eyeing Albuquerque are in it for the long haul, say their agents. They typically buy single-family homes or apartment units such as duplexes, to hold on to for a minimum of five years, renting them out in the meantime.

A small percentage appear to be buying with the intent to "flip"— sell the house for a profit after only a few months of appreciation.

"Affordability makes Albuquerque a hot spot," said Brian Fink, local vice president of sales and marketing with Pulte Homes, which is based in Bloomfield Hills, Mich. "The median price of a home in Albuquerque is at the bottom of national averages. It's the last of the Southwest cities that's got a median price of houses under \$200,000. It's got sun, it's in the Southwest, it's close to a lot of beautiful major cities, and it is flat out affordable, and that is exactly what they're looking for.

"We're early on in this evolution here."

San Francisco Bay area resident Gabriela Aranda made her first Albuquerque real estate buy in January. It was a duplex, and she paid just under the asking price. A few weeks ago, she bought a single-family home with four bedrooms and two baths in the established Four Hills neighborhood. On the advice of her agent, Kate Southard, she paid the asking price of \$145,000 before the home went on the market.

She says she intends to rent out both properties, holding on to them for at least five years before deciding whether to sell, hopefully at a considerably higher price.

And she plans to return to Albuquerque in the fall to buy more.

"I'd like to think I can buy as many as possible— as long as the banks are willing to lend me money.

"It's a bit of a journey to come out, but it's worth it," she says.

Both she and Brock, of San Jose, say Albuquerque's clean, relatively new properties in secure neighborhoods are the ideal investments. They say their own research has shown Albuquerque is on the radar for businesses nationwide, and as new companies move here, relocating families will be looking for places to rent.

Locals outbid

"I currently have 11 California buyers on my desk, and I've got sticky notes all around my computer," said Southard, owner of Kate Southard Real Estate.

"They're looking to make their money on their investment long-term, and they're competitive, and they frequently outbid our local buyers. ... (That) has been my

experience."

With fewer resale houses on the market, compared with this time last year, Southard says there just isn't enough product for her clients. Statistics from the Albuquerque Metropolitan Board of Realtors show about 700 fewer properties available now vs. April 2004, and Gary Doran, the board's executive vice president, says competition for "good homes" is fierce.

Southard says she checks listings at least twice a day, and that's probably not enough.

Houses sell within a few days or even hours after appearing on the market, and investors are often willing to overpay to win the bidding war.

At any one time, Sheffer says, he has four California clients, about evenly split between those buying single family homes and those looking to invest in apartments.

Either way, they're after the best property that's available.

"They're gobbling up all the good stuff so all we're left with as locals is the crummy stuff," he said. "The pricier stuff, the bigger stuff, that's kind of what they're shooting for. ... California investors are buying local investors down or out of the market completely."

Market top-out?

Eberle compares the real estate roundup to the dot.com boom of the '90s, in which "everybody's jumping on the bandwagon and not fully understanding the market."

Then, people who were not so savvy in the stock market bought into tech stocks, often beyond their means and more often beyond their knowledge. A collapse ensued, leaving countless investors holding worthless paper.

Some say real estate investors could be facing similar peril, stuck with houses they can no longer sell because the market has topped out. It's already starting to happen in Phoenix and Las Vegas, where house prices are dropping 20 percent and more in a matter of days.

But in Albuquerque the boom has just started.

Local experts say it's too early to know just how much out-of-state investors are contributing to the local economy or inflating real estate prices.

Jim Folkman, executive vice president of the Home Builders Association of Central New Mexico, points out: "Housing dynamics are far too complex to be affected by any one thing."

Low interest rates, easy access to loans, and job availability affect the market. Investor activity probably ranks No. 3 or 4 on that list, Folkman said.

The causes may be debatable and varied but everyone agrees prices are swinging up.

Sheffer estimates that "in the past six months, there's been probably 8 percent appreciation for Albuquerque. That's unheard of; that's what we should be seeing annually."

Average single-family home sale prices for April 2004 stood at \$178,077, about \$20,000 less than the average \$197,770 today, according to the local Board of Realtors.

The group doesn't break it down by quadrants, but Folkman says appreciation values vary by location in the city. He estimates there has been 10 percent to 15 percent appreciation in the last year in the Far Northeast Heights and maybe around 5 percent appreciation on the West Side.

There is less demand in that area and with desert land stretching beyond the horizon, there is plenty of product to go around.

But for investors wanting new low-cost homes and willing to work around builder policies, the West Side is a gold mine.

The area has real estate agents like Merlock, an associate broker with Coldwell Banker Legacy, standing at the ready, investor client list in hand.

"I just started tapping my California resources, and to me it's like, 'Wow,' where does it go from here?"

Maybe Florida. Michael Wilsher, the qualifying broker for the Coldwell Banker office Merlock works out of, said calls began coming in last week from Florida investors.

"Now we're bicoastal," Wilsher said. "When they start coming down from Canada, I don't know what I'll do."

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