Rental market in Santa Fe one of nation's tightest

Local real estate group says demand is likely to keep up with building as economy strengthens

'Crowded market' doesn't begin to describe renting in Santa Fe | Anson Stevens-Bollen

By Matt Grubs | 5 days ago

There's been virtually no easing of Santa Fe's tight multifamily real estate market in the past year, according the latest report from CBRE, a global commercial real estate company that surveys Albuquerque and Santa Fe's rental market.

In May, the city's market-rate apartment complexes boasted a 98.38 percent occupancy rate. Affordable housing occupancy was above 99 percent. The company says anything above 95 percent is considered full occupancy, with the only vacancies coming for the space between residents that's used to repair and improve apartments.

The market is so tight that Tuscany at St. Francis, a large complex near I-25 and St. Francis, recently posted on Craigslist advertising a one-bedroom apartment available in the middle of October—two and a half months from now.

Real estate broker Billy Eagle, vice president of CBRE's multifamily group, tells SFR that a healthy multifamily market usually has a 93-plus percent occupancy rate and rents that grow in a stable pattern. By that measure, Santa Fe is healthy for those who own apartments.

But demand has long outstripped supply, and CBRE says Santa Fe is one of the country's most crowded markets for multifamily rentals. Eagle says only about 4,000 apartments are available for a city population that is approaching 90,000.

Building for multifamily apartments has seen a boom in terms of permits and planned development. While CBRE says two or three developments will likely be ready to rent by 2019 or 2020, the firm's report says "only a handful of projects are expected to actually break ground and deliver units in the next three years."

To add to the pressure, the city ordinance that developers credit for spurring recent building is due to sunset in 2019. The city is already bumping up against the lead time many developers consider necessary to plan a project. The program lets them pay a fee to the city's Affordable Housing Trust instead of building 15 percent of units as affordable housing. Uncertainty over whether the city will continue the policy could soon drain the city's development pipeline.

"I think the expiration is of concern," says Jennifer Jenkins, principal of the land use and project management firm JenkinsGavin in Santa Fe. She says developers have voiced that to the city. "I think there is a desire to see that extend. I don't know yet if there is the political will to do that or not."

Colleen Gavin, an architect and the other half of the partnership, says the city requires a development plan for any multifamily project over 10,000 square feet. It's a significant investment—from $50,000 to $150,000 not counting the cost of land—even before the project is approved.

"Typically construction time periods are pretty standard," she says, "But then when you move backwards, it's 12-18 months. It's not an easy process and it's not a quick process."

Jenkins says there was an almost immediate impact on market-rate development when the fee-in-lieu ordinance went into effect in early 2016. The firm began hearing from potential clients right away. If the city starts once more requiring projects to have affordable apartments included, she says it's likely to stop market-rate development cold.

"When [the inclusionary zoning] provision was implemented, there were no market-rate projects built. It had the unintended consequence of dramatically decreasing supply, which increased the cost of housing," Jenkins tells SFR.

On average, the CBRE report says market-rate renters in Santa Fe pay almost 24 percent more per square foot for apartments in larger complexes than in Albuquerque. Rentals north of Casa Solana along St. Francis Drive—many of them decades old—go for more than even much newer luxury apartments in the tony High Desert development in the Albuquerque foothills.

Eagle be arting to hit its stride in terms of job growth, and he thinks any new building will easi be absorbed by pent-up demand rket.

"That's something developers are banking on. From my perspective, we haven't seen anything be dented by something like the Railyard Flats, which was just a 58-unit development but in a very desirable location," he says.

Jenkins says the bump in recent permitting and planning at the city is "not about developer greed or not want to provide affordable housing. It's the economics."

While the fee-in-lieu policy hasn't produced any more affordable housing units, Jenkins believes it gives the city more flexibility to address affordable housing needs through things like vouchers or mental health programs or transitional housing for the homeless community.

"At the end of the day, you can't be losing money," Gavin says of market-rate development. "I think this was a little bit of an experiment ... and it's worked."

Gavin says the city's decision about the fee-in-lieu policy needs to come after an educated and thorough review, but adds that sooner is definitely better.

"I'm hoping that the city has their eyes on what that sunset date is and they're working backwards," Gavin says.

CBRE reports on the multifamily market three times a year. The company surveys large apartment complexes. In Santa Fe, that's a relatively small number of complexes—23 such developments compared to 194 in Albuquerque.

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