

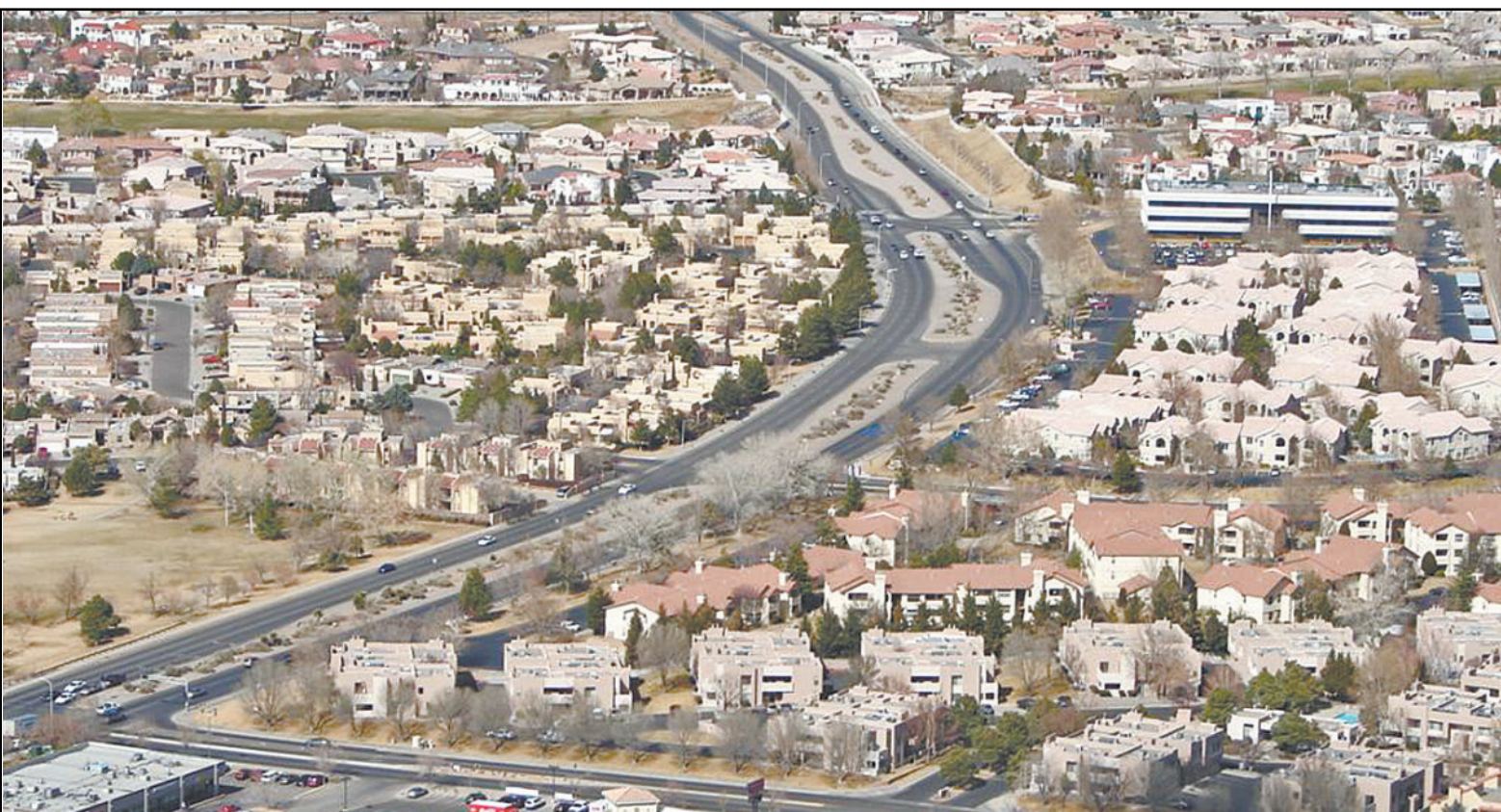
## TESTING JET PARTS

A spinoff uses resonance

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MONEY RATES ♦ PAGE 22



COURTESY ANDRE PANEBOUF

This Albuquerque neighborhood near Eubank and Juan Tabo NE has clusters of apartment complexes.

# No Vacancies?

## APARTMENT SUPPLY AND DEMAND ARE ON A COLLISION COURSE IN ALBUQUERQUE

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By **RICHARD METCALF**  
Journal Staff Writer

**T**he Albuquerque metro area appears to be headed toward an apartment shortage. Continued job growth and rising house prices are expected to send more residents to the rental market, reversing a trend of recent years, said Todd Clarke of New Mexico's Apartment Resource.

With few apartments being built, Clarke said, market forces point to a fully saturated apartment market by 2010. "No Vacancy" signs would be the

norm.

However, enough variables influence housing to cast doubt on the forecast of a saturated market, he said.

One of the biggest wild cards is the development community's ability to overcome today's obstacles to apartment construction and start adding units.

"The market always seems to figure out a way to deal with it and provide the housing," said Steven J. Smith, executive vice president of the Apartment Association of New Mexico.

But as things stand, that's not happening. Supply and demand appear to be on a collision course for renters, Clarke said. Renters make up about one

of every three households in the metro area. Newcomers, lured by jobs, are especially likely to rent in the market.

A potential shortage of apartments could play into the pace of economic development in the metro area, he said.

### Fueled by jobs

The metro's job growth rate was 1.7 percent, or 6,500 jobs, in 2005 and 2.5 percent, or 9,700 jobs, in 2006, according to the New Mexico Department of Labor. Reflecting a regional trend, local job growth is expected to continue.

On the premise that one-third of

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## 150-room hotel for Uptown

■ Local company said it couldn't pass up the site near I-40

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Albuquerque Journal

By **RICHARD METCALF**  
Journal Staff Writer

**A** seven-story, 150-room hotel will be coming out of the ground late next month along Interstate 40 in Uptown.

Albuquerque-based Legacy Hospitality Inc. is building the Hilton Garden Inn to compete with established hotels like the 17-story Albuquerque Marriott and eight-story Sheraton Albuquerque Uptown.

"It was an opportunity we couldn't pass on," said Legacy president and CEO Aleem Kassam. "Uptown has not seen much new (hotel) development."

Legacy purchased the four-acre site 2 1/2 years ago for an undisclosed price. Since then, Legacy has worked with Beverly Hills, Calif.-based Hilton Hotels Corp. and the city of Albuquerque to get the project approved.

"There were a lot of hoops to jump through," Kassam said. "We've had at least half a dozen site plans."

The project is expected to be completed in December.

Legacy actually has approval for two hotels at the site on Americas Parkway NE, just west of the Marriott and Buca di Beppo restaurant. The second hotel, which has not been determined, will include a parking structure, Kassam said.

"Great location, great visibility," said Mike Swasey, Legacy's vice president of operations, about the Uptown site. "When something sticks out

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# Legacy plans 7-story hotel in Uptown

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on the skyline, it draws your attention."

## Long overdue

Although a hub of commerce with its retail centers and midrise office buildings, Uptown has not seen a lot of hotel development.

The six-story Uptown Amerisuites, a Hyatt affiliate, opened 10 years ago with 128 rooms and 1,100 square feet of meeting space.

Uptown has two of the city's biggest hotels in the Marriott, with 411 rooms and 16,000 square feet of meeting space, and the Sheraton, with 264 rooms and 17,000 square feet of meeting space.

Still in the works is Hunt Building Corp.'s plan for a hotel at ABQ Uptown, the 20-acre mixed-use project that opened its initial retail phase last fall.

## A water slide

A mid-price brand in the Hilton family of hotels, the planned 120,000-square-foot Hilton Garden Inn will be a franchise operation with a

restaurant, lounge and 5,000 square feet of meeting space.

On its own, Legacy is adding a 20-foot water slide to the standard indoor swimming pool.

"The Hilton Garden Inn brand is known for its commercial clients Monday through Thursday," Kassam said. "This gives us the opportunity to acquire family business on weekends."

Legacy first experimented with the amenity at its six-story Holiday Inn Hotel & Suites at Interstate 25 and Jefferson NE, which opened a year ago. The experiment proved a success.

The planned seven-story Hilton Garden, which is approved for an eighth-floor penthouse in the future, will be the tallest building built by the private sector here in more than two years. The nine-story Embassy Suites opened in April 2005.

The hospitality industry is building higher than anyone else right now for several reasons, starting with the cost of land, said Trevor Hatchell of CB Richard Ellis.

"Most of the hotel sites in this market range from 1 1/2 all



COURTESY OF LEGACY HOSPITALITY INC.

The seven-story Hilton Garden Inn designed by Tafazzul Hussain and shown in this architects' sketch is under construction west of the 17-story Marriott Albuquerque in Uptown.

the way up to three or four acres," he said. "In prime locations like this one in Uptown, the cost of that land can be quite high."

Coupled with high land costs is the need to build on a bigger, more expensive scale — a national trend reflected in brand prototypes that keep adding floors. "Today, you typically have to build at least 100 rooms to make it a viable financial proposition," said Hatchell, who has been

involved in five hotel deals in the past 18 months.

In light of the rising costs, a deciding factor enabling continued hotel development is favorable financing. "It's been very good for hotels," Hatchell said. "And there are still opportunities out there."

As of early last year, there were 196 hotels, motels and bed-and-breakfasts in Albuquerque, Rio Rancho and a portion of Bernalillo County, he said. "That number has

since gone up by at least a half-dozen," he added.

## N.M. roots

Although Legacy Hospitality is only six years old, its roots in New Mexico go back to 1978 through Aleem's father, now semi-retired Mohamed Kassam.

The family has developed close to 20 hotels in the state over the years but has sold most of them to pursue new opportunities, Aleem Kassam said. Legacy currently has seven properties in New Mexico employing 300-350 workers, he said.

One of the keys to Legacy's hotel development is having a related construction company, Alpha Legacy Construction, headed by Aleem's brother, Faizel Kassam.

They also have hotel properties in Canada and are scouting opportunities in Arizona, Nevada and Southern California, Aleem Kassam said.

The Hilton Garden project in Uptown, designed by Tafazzul Hussain of Albuquerque, will result in about 100 jobs, he said.

# No Vacancies?

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households rent, Clarke said the metro will soon need 2,000 new apartment units each year to keep up with the job growth.

Since a flurry of apartment construction in the mid-1990s — more than 1,600 units a year from 1994-97 — construction has slowed.

From 1998-2006, apartment construction has averaged 722 units a year in the metro, according to the Home Builders Association of Central New Mexico, which tracks apartment construction.

Last year, 718 units were built, the most units in the past three years. In contrast, more than 6,600 single-family houses were built.

Most of the apartment construction in recent years has involved low-income housing tax credits, according to Clarke and other observers of the apartment market. The credits are a federal incentive requiring at least a portion of

the units in a project to be set aside for households making significantly less than the local median income. As a result, tax-credit projects don't have an immediate impact on the broader apartment market where most renters live.

The single-family housing boom that peaked in 2005 sent apartment occupancy rates as low as 90 percent in the first half of the decade.

Renters were lured into the first-time home buyer's market by what David Eagle of CB Richard Ellis called "the housing hat trick."

"Low home prices, low interest rates and easy lending," he said.

Renters could buy a house with no money down and a monthly mortgage payment comparable to the monthly rent on an apartment, Clarke said. "That's where you switch over and own a house," he said.

The brisk sale of existing single-family homes led to an

acceleration in house values throughout the metro. The average sales price rose 42 percent from 2002-2006, according to the Albuquerque Metropolitan Board of Realtors.

Rising house prices are forcing more and more potential buyers out of the market, according to the Housing Opportunity Index.

In the third quarter of 2004, a family of four making the median income of \$54,200 a year could afford to buy 72 percent of the houses, both new and used, on the market.

Two years later, the same household could afford only 39 percent of all homes for sale, according to the index by the National Association of Home Builders and Wells Fargo Bank.

The impact has been felt in the local apartment market.

Occupancy reached 98 percent last year, according to Clarke, who bases his rate on a

## RUNNING OUT OF APARTMENTS

Albuquerque metro's projected occupancy rate for apartments, based on about 5,400 properties with 79,912 units.	2007	98.3%
	2008	99.1%
	2009	100.5%
	2010	101.9%

SOURCE: New Mexico's Apartment Resource

comparatively large inventory of 79,912 units in the metro.

Other companies that track apartment occupancy show lower rates for 2006.

Carrollton, Texas-based M/PF YieldStar reported 94.8 percent in the Albuquerque metro, while Novato-Calif.-based RealFacts reported 94.1 percent.

Apartment occupancy hit a high of just more than 98 percent in the fall of 1994, when Intel Corp. was expanding its chip-making plant. At that time, apartments were hard to find. The flurry of apartment construction in the mid-1990s was in response to the demand.

A similar response today is

unlikely because of the lack of available land and high construction costs, Clarke said.

Today's cost to build an apartment project would require rents that are 40 percent higher than the marketwide average rent, according to Joe Romero of Grubb & Ellis New Mexico.

The marketwide average rent is somewhere around \$675 a month, based on various sources, making Albuquerque one of the cheapest cities to rent an apartment in the entire West.

Ultimately, the low average rent is what discourages new apartment projects that don't use tax credits.