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FARMINGTON MAINSTREET

AN ANALYSIS OF FARMINGTON'S REAL ESTATE MARKET, WITH A FOCUS ON PROPOSED MUNICIPAL REDEVELOPMENT AREAS

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New Mexico Economic Development Department
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September 2005

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I. Introduction

In March 2205, The New Mexico Economic Development Department's MainStreet Program contracted the Bureau of Business and Economic Research (BBER) at the University of New Mexico to provide economic analysis in support of the development of Municipal Redevelopment Areas in Farmington, New Mexico. The first phase of this work resulted in a report entitled "A Preliminary Market Analysis for Proposed Farmington Municipal Redevelopment Areas". This report supports the preliminary work with a more detailed study of Farmington's real estate market during the period 2002 through June 2005, with particular focus on trends in proposed downtown MR areas.

The source of information used in this study is the San Juan County Board of Realtors. This is an ideal source of information for a study of real estate in Farmington, as it offers a comprehensive listing of all registered real estate transactions during the study period¹. The data includes the date and location of all transactions, the final sales value, land and building area, and other variables. Information on the parties to all transactions was removed from the dataset.

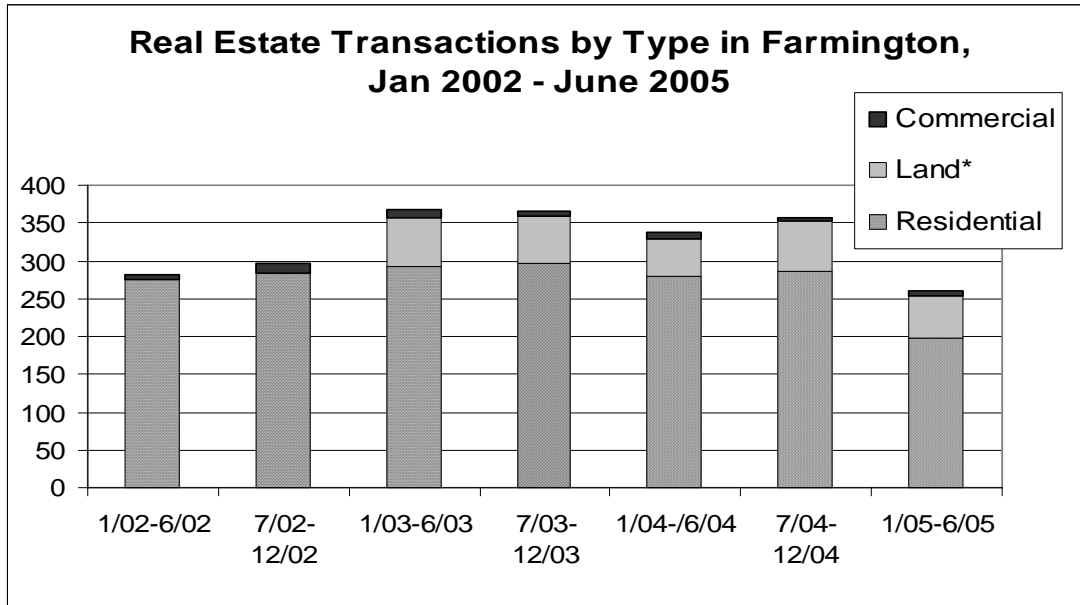
The following provides a detailed account of trends in Farmington's real estate market.

II. Real Estate Trends by Type

Figure 1 shows the number of real estate transactions, by type, for the period January 2002 through June 2005. As the figure indicates, the volume of real estate activity within this short three and a half year study period reached a peak in 2003, when 734 transactions were recorded. This was up from 577 in 2002. The activity remained strong in 2004, but fell sharply during the first half of 2005, to about 70% of the level of the corresponding period in 2003. These trends apply equally to residential and commercial properties.

¹ During the three and a half year study period, 2,267 transactions within the Farmington city limits were recorded.

FIGURE 1



*Data available for land only for the period January 2003 – June 2005.

III. Property Values by Type of Real Estate

Figures 2 and 3 show average values of residential and commercial real estate for Farmington and the MR area for the period January 2002 through June 2005. Over the seven semi-annual periods, average residential values increased by 44%, from \$70.1 per square foot in the first half of 2002 to \$103.8 per square foot in the first half of 2005. Values rose in each period, though the largest percentage increase was in 2005 (11% compared to second half of 2004). This upward trend in real estate values follows, but is slightly below, national and statewide patterns of appreciation of residential property values.

The value of commercial real estate also increased over the study period, though the trend was significantly less stable because the tendency of values to track very short term trends in the economy and the smaller number of transactions. Over the entire period, values increased by 62.2%.

FIGURE 2

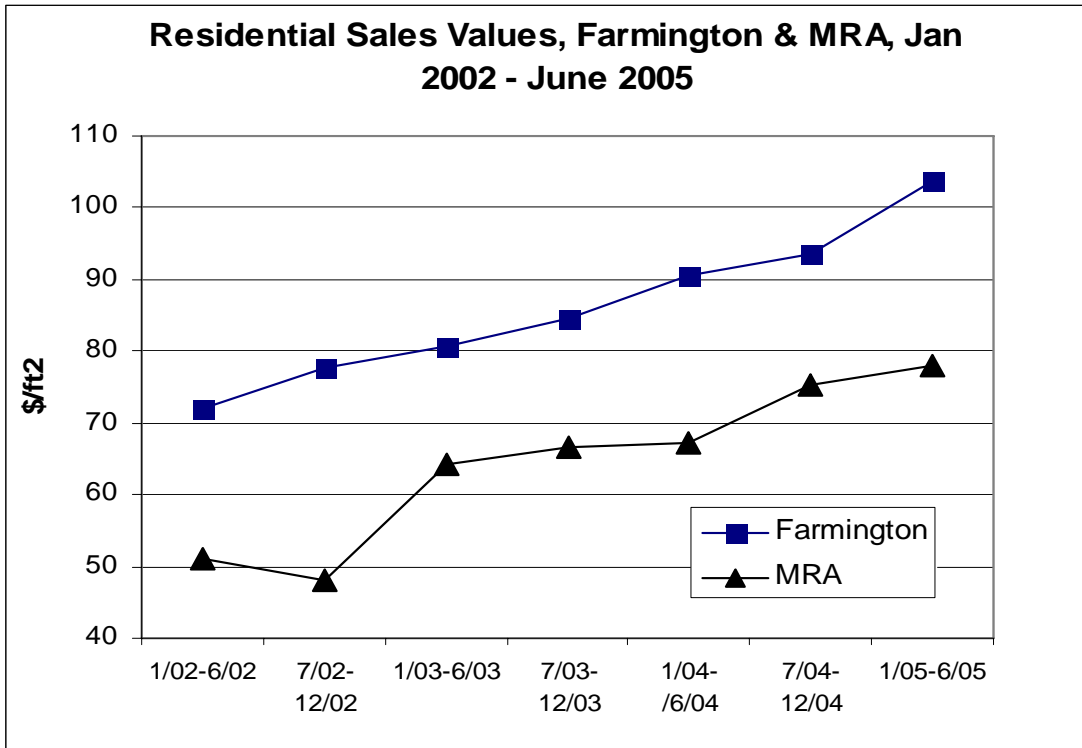
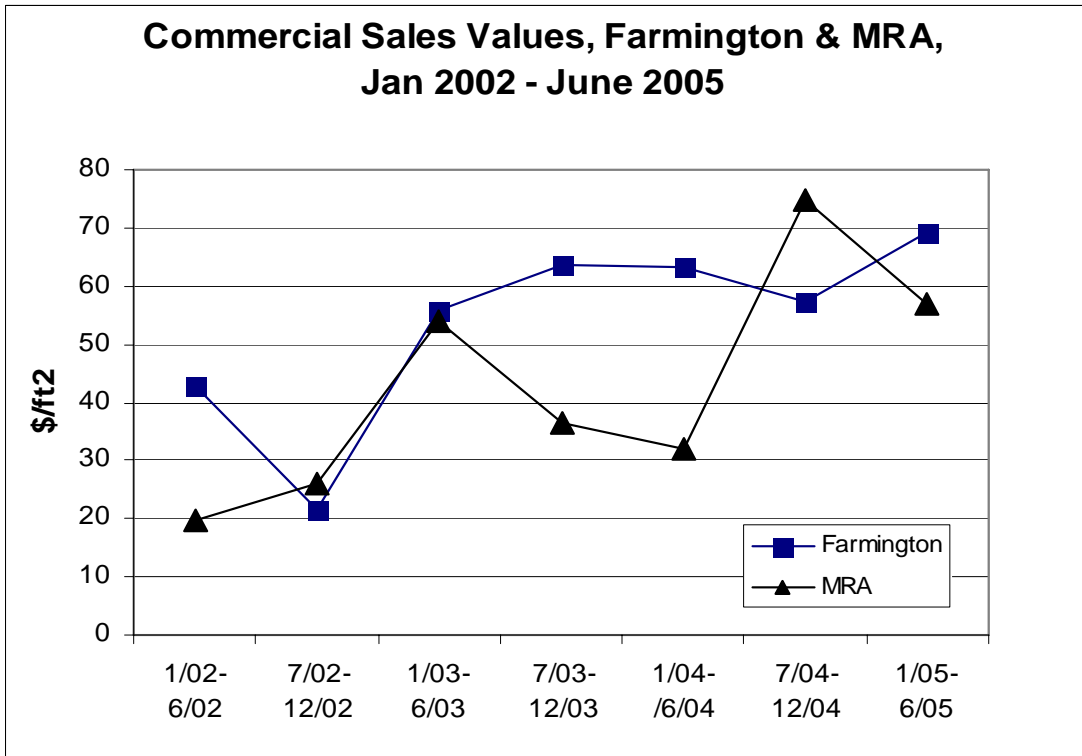


FIGURE 3



III. The Geography of Real Estate Activity in Farmington

The location of real estate transactions is recorded with the San Juan County Board of Realtors. The location is assigned to one of 150 zones. The zones are coded west to east from A to O, and north to south from 0 to 9. The MR area falls within the five zones E7-G7 and F8-G8, which are highlighted in yellow. Two notes of caution must be considered in evaluating this data. First, the MR area comprises only portions of the five identified zones— a fairly small share of transactions with these zones is outside the boundaries of the proposed MR area². Second, brokers assign the location to the matrix but this process is far from accurate. In a random sample of 30 transactions, six were incorrectly coded.

Figures 4a and **b** show average sales values and the total number of sales of residential properties, respectively, for the 150 zones. **Figures 5a** and **b**, and **6a** and **b** are comparable data for commercial property and vacant land. In each of the figures, the five darkened cells include the MR area. The five cells in the area K2 to M3 are the rapidly developing northeast quadrant of Farmington; the eleven cells from F3 to H6 (excluding F3) are the developing neighborhoods to the north and northeast of downtown. These two areas are highlighted in a lighter tone.

Analysis of the residential data indicates that only a small share (4.7%) of all residential transactions during the study period were in the five zones that encompass the MR area. By contrast, the 16 cells in the zones to the north and northeast of downtown and in the Foothills area capture nearly 64% of all residential transactions. Over the seven study periods, average value of residential properties in the MR area was \$63.3/ft², compared to an average value of \$86.1/ft² in other parts of the city.

The geography of commercial real estate was sharply different. 32 of the 57 (56%) commercial real estate sales that occurred during the study period were in the MR area. Because commercial spaces in the downtown MR area is on average smaller than in other areas of the city, these transactions comprised 30.2% of the total area of commercial transactions (91,343 of 301,381 ft²). Finally, the average value of commercial space in the MR area is below that of other areas, \$40.2/ft² compared to \$52.4/ft². The only other area with a significant volume of commercial activity was just north of the MR area, though values in this area were also below the citywide average.

² The mismatch between the zones and the specific boundaries of the MR area does not affect the values of residential and commercial transactions in the MR area shown in Figures 2 and 3. The averages for MR area in these figures include only transactions that occurred within the proposed MR area boundaries.

REAL ESTATE IN FARMINGTON, NM, WITH FOCUS ON PROPOSED MR AREA

FIGURES 4.A. AND 4.B
AVERAGE RESIDENTIAL REAL ESTATE VALUES, BY ZONE WITHIN FARMINGTON,
JAN 2002 - JUNE 2005

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
0	46.1					120.5	66.3	73.1				125.4	131.9		
1		73.0				86.3			92.5		101.8		129.3	54.8	124.2
2	71.9		103.3				70.3	99.6	94.5	107.0	105.6	93.2	88.5	97.3	86.6
3						87.9	98.3	101.6	98.3	95.7	87.6	103.2	98.6		
4			78.0	72.2	78.7	79.5	90.2	84.1	81.4	81.1	88.6	76.9	109.5		
5			75.0	79.9	69.6	82.5	78.3	76.2	75.6	78.0	64.7	97.7	100.5		
6					59.0	78.7	72.3	67.6	71.8	55.2	148.3	100.0	120.4	70.0	
7	68.3	91.8	86.8	77.0	65.0	63.2	75.8	61.1				48.5	23.8		
8			83.7	73.3		65.1	53.1	57.6	60.0	82.3		43.4	49.9		
9				104.9		51.3	52.7	73.2	69.6			46.0	98.1		

NUMBER OF RESIDENTIAL REAL ESTATE TRANSACTIONS BY ZONE WITHIN
FARMINGTON, JAN 2002 - JUNE 2005

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
0	2					1	1	1				12	3		
1		1				1			1		2		10	2	3
2	3		2				1	5	13	2	17	174	68	1	1
3						6	94	40	1	53	75	17	3		
4			2	1	3	54	147	49	18	30	16	50	1		
5			1	4	9	101	74	73	60	52	1	5	3		
6					1	60	80	49	37	2	1	8	2	1	
7	5	3	3	15	6	58	43	7				5	1		
8			1	18		4	16	3	7	8		2	1		
9				1		1	10	56	8			2	2		

TOTAL

Source: San Juan County Board of Realtors

REAL ESTATE IN FARMINGTON, NM, WITH FOCUS ON PROPOSED MR AREA

FIGURES 5.A. AND 5.B
AVERAGE COMMERCIAL REAL ESTATE VALUES, BY ZONE WITHIN FARMINGTON,
JAN 2002-JUNE 2005

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
0															
1															
2										52.6			37.7		
3								134.4							
4															
5						76.7	46.2		113.1						
6							85.7	44.9	91.8						
7				33.6	62.6	31.8	58.7	67.8	81.3						
8					68.2	49.6		54.2	32.5	63.2					
9									6.9						

NUMBER OF COMMERCIAL REAL ESTATE TRANSACTIONS BY ZONE WITHIN FARMINGTON,
JAN 2002-JUNE 2005

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
0															
1															
2										1			2		
3								4							
4															
5						1	2		1						
6							2	2	1						
7				1	5	18	4	1	1						
8					2	5		1	1	1					
9									1						

TOTAL

Source: San Juan County Board of Realtors

REAL ESTATE IN FARMINGTON, NM, WITH FOCUS ON PROPOSED MR AREA

FIGURES 6.A. AND 6.B

AVERAGE LAND VALUES, BY ZONE WITHIN FARMINGTON, JAN 2003-JUNE 2005

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
0									0.3		0.4	0.5	1.1		
1								0.8	0.3	0.3	0.2	0.6	2.3		
2								0.5	0.8	0.5	1.6	1.4	2.4		
3				0.4			3.1	3.4		2.8		0.8			
4						2.2	1.8	2.6		0.8		1.1		0.9	
5				0.5		1.1	1.3	4.1	2.0	2.0	2.2				
6				0.7			3.7	5.7	1.7			0.5	0.5		
7				1.3		1.0		2.3		0.9					
8						2.9		2.0	1.1		0.3				
9							1.0		1.1						

NUMBER OF LAND SALES BY ZONE WITHIN FARMINGTON, JAN 2003-JUNE 2005

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
0									1		1	10	1		
1								1	2	1	1	3	65		
2								1	8	8	3	34	21		
3				1			24	10		9		10			
4						2	12	14		2		1		1	
5				1		1	5	1	3	1	1				
6				2			2	1	1			2	8		
7				4		3		1		1					
8						2		2	3		1				
9							1		1						

TOTAL

Source: San Juan County Board of Realtors

IV. Summary of Findings

This study yields three principal findings.

First, real estate values (per square foot) have risen steadily during the three and a half year study period, for both residential and commercial property. The volume of transactions was generally unchanged during the period 2002-2004, but fell sharply during the first six months of 2005. Without more detailed analysis and data for a much longer study period, it is not possible to definitively establish a relationship between the rising value of real estate and the flat and declining supply of properties on the market.

Second, the MR area is distinguished from other parts of Farmington by its concentration of commercial real estate and relative scarcity of residential properties. More than one-half of all commercial transactions during the study period were in the MR area. By contrast, residential transactions in the MR area comprised fewer than 5% of the citywide total.

Third, the value of real estate in the MR area is well below that of other parts of Farmington. Overall, residential property is approximately 25% lower than in other areas, while commercial property is about 20% lower. However, despite the lower values, the period-to-period trend in property values in the MR area closely tracked that of other areas. This suggests that the downtown area is not a 'market apart', in which investments in newer areas are accompanied by disinvestment in blighted downtown areas. This is a positive sign for redevelopment initiatives.

Finally, the two areas with the greatest concentration of activity, for residential and raw land sales, are in the northeastern quadrant (the Foothills area) and in the area immediately to the north and northeast of the downtown. Not surprisingly, these two areas also have the highest property values. The intensity of activity and the strength of values to the north and northeast of the downtown suggest a continued interest in real estate in the interior parts of Farmington. Again, this bodes well for redevelopment initiatives.