YARDI® Matrix

Albuquerque Seeks Its Footing

Multifamily Winter Report 2017

Rent Growth Remains Modest

Construction Leads Employment Gains

Deliveries See Deceleration

Market Analysis
Winter 2017

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Duke City Fights to Win

Albuquerque's multifamily market continues its ponderous recovery from the Great Recession. Population growth is slow, employment growth remains well below the 2.3% national average and its crime rate remains among the highest in the country.

Job gains have been limited, focused in the mining, logging and construction, leisure and hospitality, and education and health services sectors. Promising news, however, comes from Los Lunas, south of Albuquerque, where Facebook's new data center broke ground recently, a project with a projected economic impact of nearly $2 billion over a 10-year period. Furthermore, RIO Real Estate Investment Opportunities started construction of what will become New Mexico's largest rail-served industrial park, which is also considered a central connection between Southern California and Chicago.

Investment slowed and the transaction volume registered a 56% year-over-year drop due to a series of factors that include the feeble population growth and reduced expansion of stock. Construction also decelerated after reaching a cyclical high in 2015, with a development pipeline of 2,400 units, almost 700 of which are under construction. The office market has nearly one-quarter of all space vacant. However, the growth in the number of office-using jobs, the expansion of several companies downtown and the first new construction point to improvement.

Recent Albuquerque Transactions

Green Leaf Cottonwood

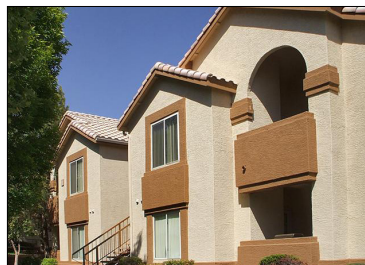City: Albuquerque, N.M.
Buyer: Green Leaf Partners
Purchase Price: $35 MM
Price per Unit: $135,974

Olympus Encantada

City: Albuquerque, N.M.
Buyer: Olympus Property
Purchase Price: $32 MM
Price per Unit: $180,000

Presidio at Northeast Heights

City: Albuquerque, N.M.
Buyer: Olympus Property
Purchase Price: $22 MM
Price per Unit: $112,265

Nob Hill

City: Albuquerque, N.M.
Buyer: Michael Miller
Purchase Price: $7 MM
Price per Unit: $83,338

To Subscribe

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Rent Trends

- Rents in Albuquerque rose 2.8% year-over-year through December, falling short of the 4.2% national average growth rate. Average rents across the metro stood at $815, trailing the $1,210 national average. Demand is weak due to modest employment growth, as the lack of opportunity has led to poor in-migration. As a result, Yardi Matrix forecasts a modest 2.1% rent growth for the metro in 2017.

- Rent growth was led by the upscale Lifestyle segment, which rose 3.7% year-over-year through December to an average of $1,005, partly thanks to the growing science, technology, engineering and mathematics industries in the metro. This spike in the upper-class rental rates deepens the affordability issue. In Albuquerque, 43% of all renters spend more than 35% of their household income on housing costs, according to the University of New Mexico. Rates in the working-class Renter-by-Necessity segment increased by 2.2% to $715. The lack of new supply suggests the metro's inventory composition won't change significantly in 2017.

- Submarkets with the highest growth included North Valley (11.2%), Santa Fe (4.3%) and Balloon Fiesta Park – East (4.2%), while submarkets with the highest rental rates include Los Alamos ($980), Santa Fe ($966), Eastside ($954), Midtown/University ($891) and Balloon Fiesta Park – East ($886).

Albuquerque vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
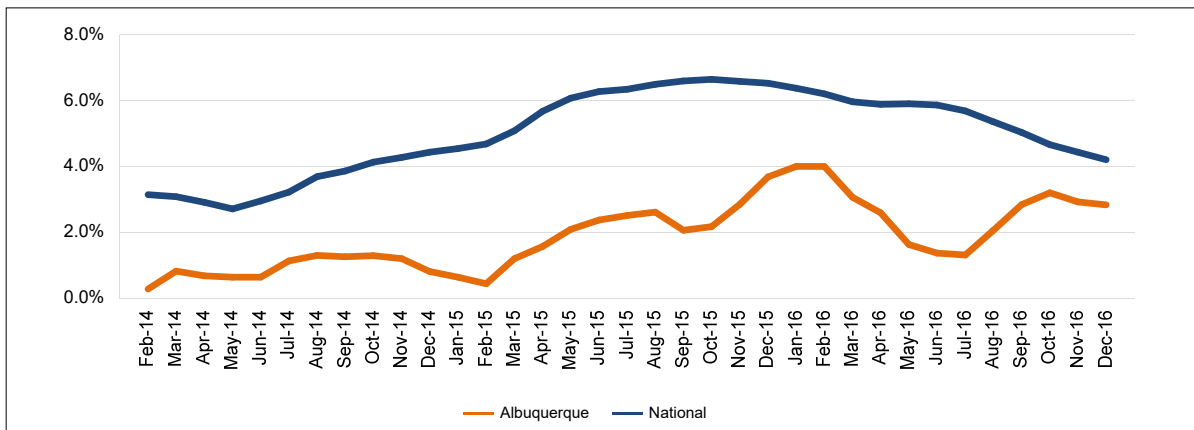
Source: YardiMatrix

Albuquerque Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)
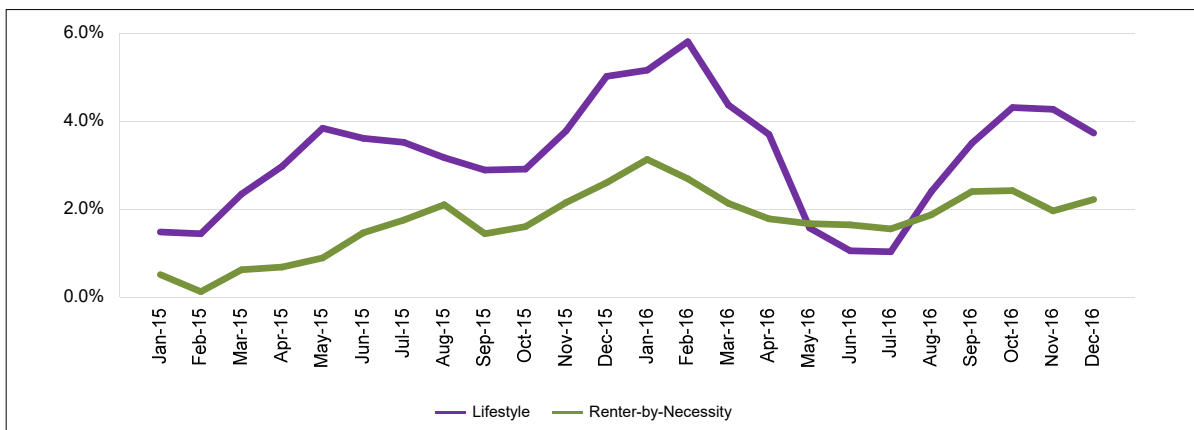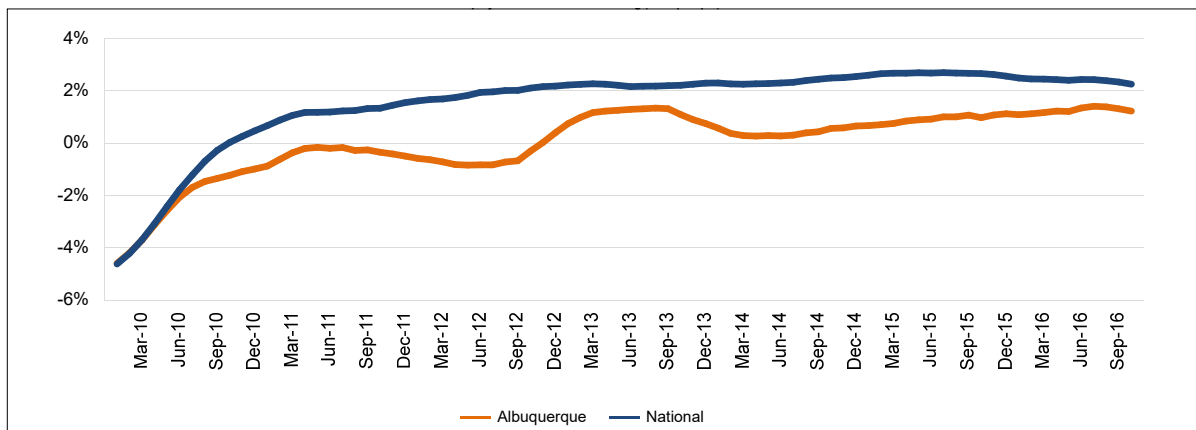

Source: YardiMatrix

Economic Snapshot

- Albuquerque added 2,500 jobs in the year ending in October, a 1.2% year-over-year increase and the fourth consecutive year of job growth in the metro. Even though the growth rate was higher than last year's 1%, the metro still trailed the 2.3% national average.

- While overall employment growth has been cooling in the metro, some sectors recorded healthy gains. Job growth was led by the mining, logging and construction sector, which increased by 6.8% year-over-year with the addition of 1,600 new positions. The development of Facebook's multibillion-dollar data center in Los Lunas is expected to support hundreds of direct and indirect jobs in construction, operations and services.

- Leisure-and-hospitality employment, which typically expands as the economy improves, increased by 2% in the year ending in October, with the addition of 1,000 jobs. Going forward, the sector shows signs of strengthening as several hotels eye renovations or new developments that will be completed or will begin in 2017. For example, DoubleTree by Hilton announced a $7 million revamp in the first part of the year, while Hyatt Regency Tamaya Resort & Spa will finish a complete guestroom renovation in April. The education and health services sector, where growth is fueled by population gains, expanded by 1.3% year-over-year, with the addition of 1,000 jobs. The sector was boosted by 200 new hires at UnitedHealth Group Inc. in northwest Albuquerque.

Albuquerque vs. National Employment Growth (Year-Over-Year)

Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Albuquerque Employment Growth by Sector (Year-Over-Year)

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
15	Mining, Logging and Construction	25	5.6%	1,600	6.8%
65	Education and Health Services	75	16.7%	1,000	1.3%
70	Leisure and Hospitality	52	11.6%	1,000	2.0%
60	Professional and Business Services	63	14.0%	700	1.1%
90	Government	100	22.3%	600	0.6%
55	Financial Activities	21	4.7%	300	1.5%
50	Information	9	2.0%	100	1.1%
80	Other Services	15	3.3%	100	0.7%
30	Manufacturing	16	3.6%	-1,200	-6.9%
40	Trade, Transportation and Utilities	73	16.3%	-1,700	-2.3%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

- The Duke City continues to maintain its relative affordability, with the average mortgage accounting for 16% of the area's median income. However, the median home value registered a 3.6% year-over-year increase, reaching $186,419, the highest level since 2008.

- Leasing an apartment is less affordable than owning a home in Albuquerque, where the average rent of $814 accounted for 19% of the area's median income in 2016. New affordable housing projects were brought online in 2016, including the $19 million, 74-unit Imperial Building and the $13 million, 56-unit Cuatro Apartments.

Albuquerque Rent vs. Own Affordability as a Percentage of Income
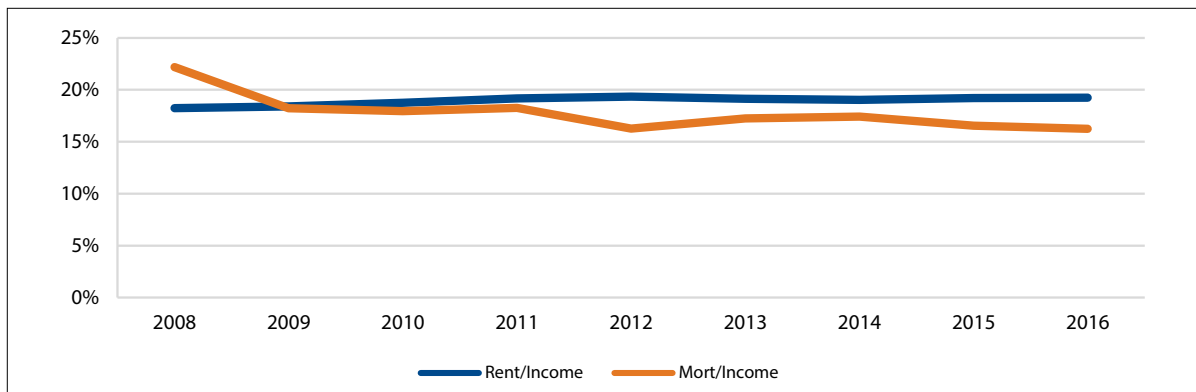
Sources: YardiMatrix, Moody's Analytics

Albuquerque Median Home Price
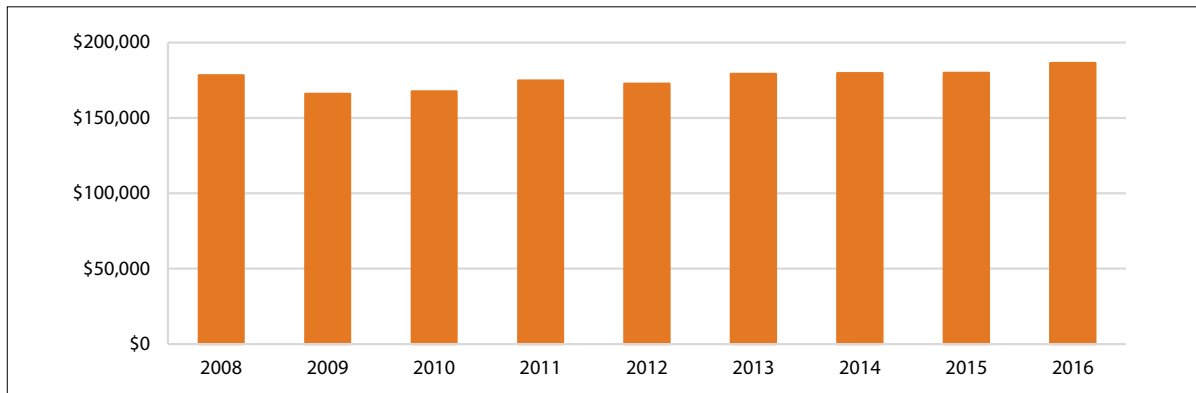
Source: Moody's Analytics

Population

- With a 0.3% year-over-year population increase, the metro continues to trail the 0.8% national growth rate.

- Population growth is up only 2% since 2010.

Albuquerque vs. National Population

	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Albuquerque, NM Metropolitan Statistical Area	897,024	901,103	903,502	904,720	907,301

Sources: U.S. Census, Moody's Analytics

Supply

- Completions in Albuquerque were weak in 2016, with only 733 units delivered year-over-year through December. This represents a 1.4% expansion of stock, well below the 2.4% national growth rate. After reaching a cyclical high in 2015, construction fell 67% year-over-year in 2016.

- The development pipeline remains fairly tepid. Some 2,400 units are in some stage of development, almost 700 of them currently under construction. More than half of the apartment communities built in the metro last year were geared toward higher-income renters. This might lead to some softening in rent growth for Lifestyle assets. Roughly 30% of the new supply is geared toward low-income tenants.

- Albuquerque's potential for urban growth is tied to the locations of vacant land that is suitable for development, so construction is concentrated in the urban core. The submarkets with units under construction are downtown/South Valley (440), Paradise Hills (166) and Uptown (85). The projects currently underway in the metro are the 240-unit Village at Avalon and the 200-unit Merhan Lofts, both in Downtown/South Valley; the 166-unit Aspens Phase II in Paradise Hills; and the 85-unit Casa Feliz in Uptown.

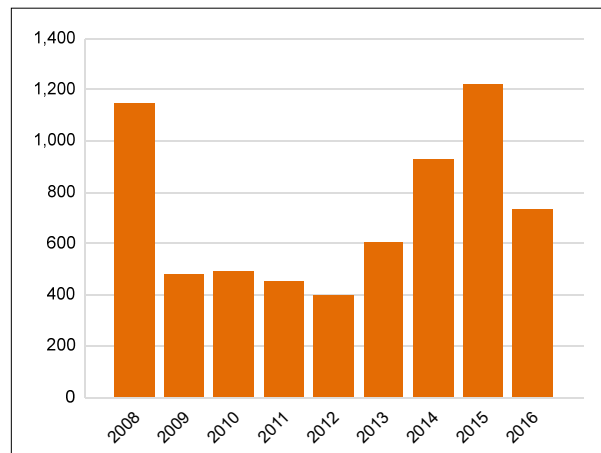### Albuquerque vs. National Completions as a Percentage of Total Stock (as of December 2016)
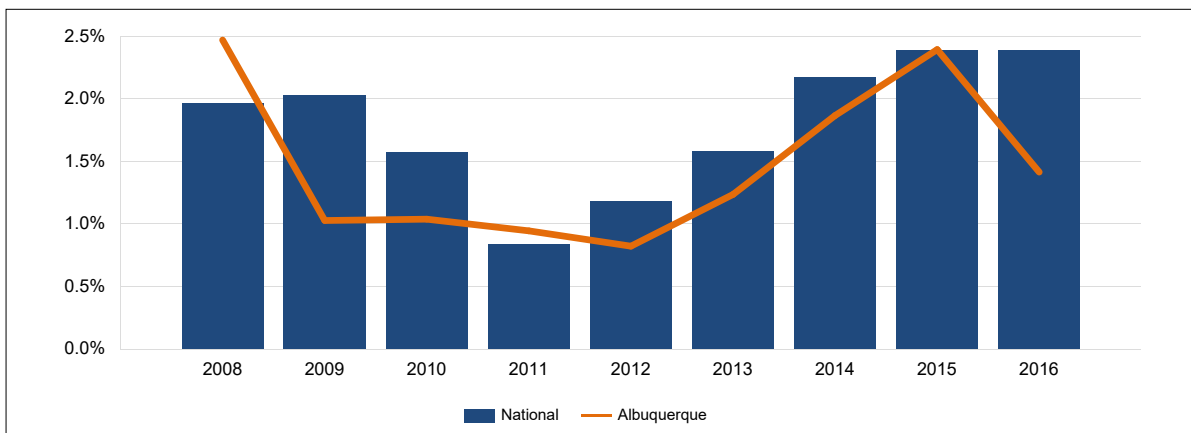
Source: YardiMatrix

Development Pipeline (as of December 2016)
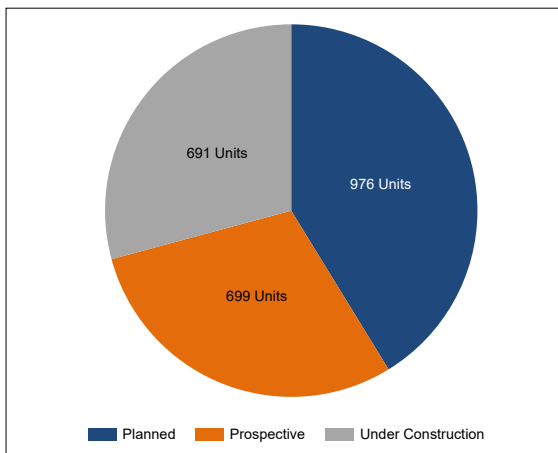
Source: YardiMatrix

### Albuquerque Completions (as of December 2016)

Source: YardiMatrix

Transactions

- Albuquerque's multifamily sales market is softening, due to a slow population growth and limited inventory. Only about $100 million worth of sales were completed in 2016, down more than 50% year-over-year. Despite the metro's relative affordability, high-yield investors seek markets where prospects for growth are brighter.

- The average price per unit lessened its growth rate in 2016, advancing a meager 2% year-over-year to $110,464, still far behind the national average of $134,802.

- Submarkets with the highest activity were Paradise Hills, Balloon Fiesta Park – East and the Eastside. The $35 million acquisition of Green Leaf Cottonwood by Green Leaf Partners ranked as the Duke City's largest multifamily transaction in 2016, followed by Olympus Property's $32 million acquisition of Olympus Encantada in Balloon Fiesta Park – East.

Albuquerque Sales Volume and Number of Properties Sold (as of December 2016)
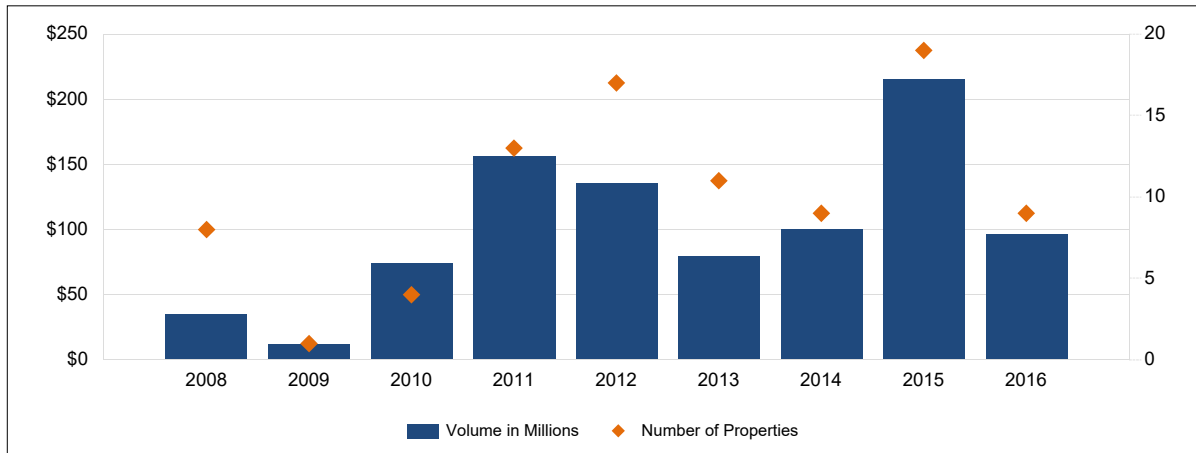
Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

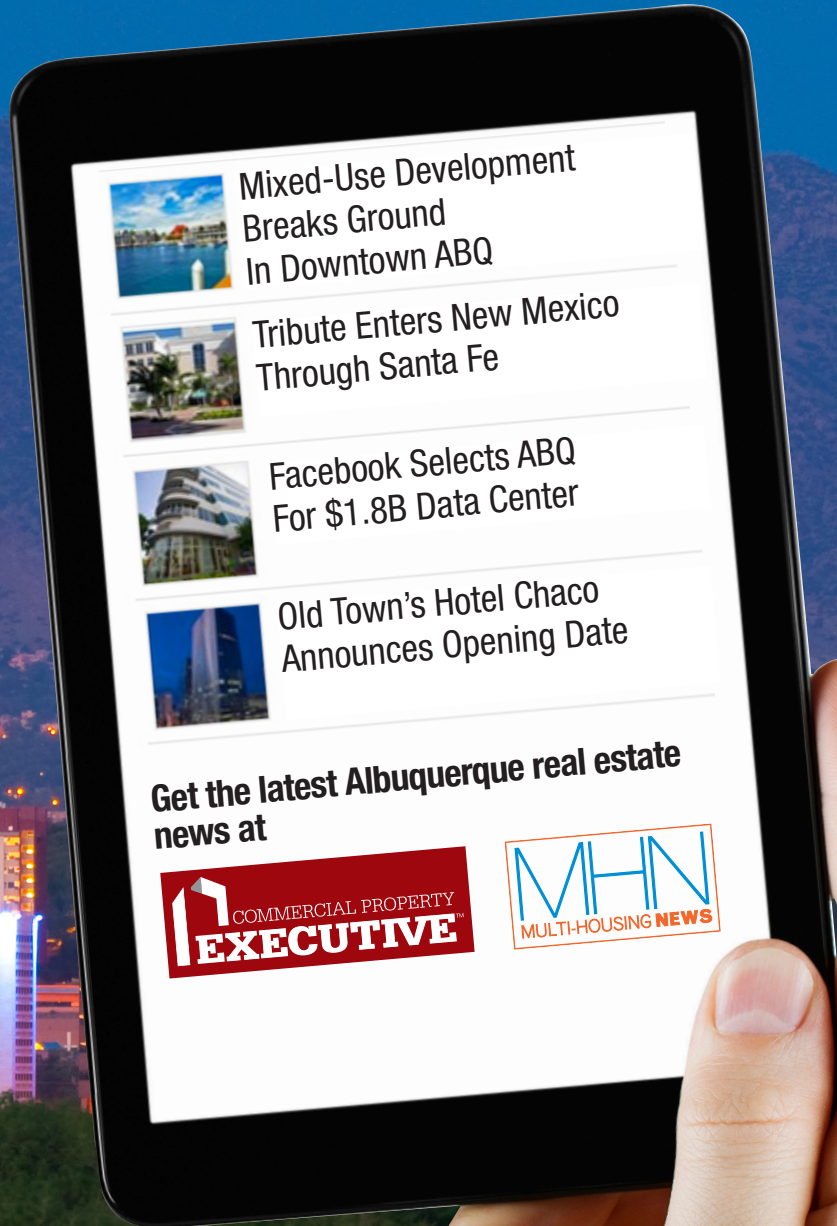| Submarket	Volume ($MM)
Paradise Hills	35
Balloon Fiesta Park - East	32
Eastside	22
Midtown/University	7
Balloon Fiesta Park - West	2

Source: YardiMatrix
[1] From January 2016 to December 2016

Albuquerque vs. National Sales Price per Unit
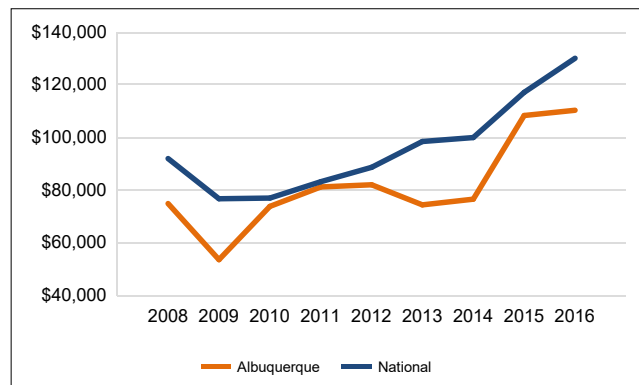
Source: YardiMatrix

Read All About It!

Mixed-Use Development
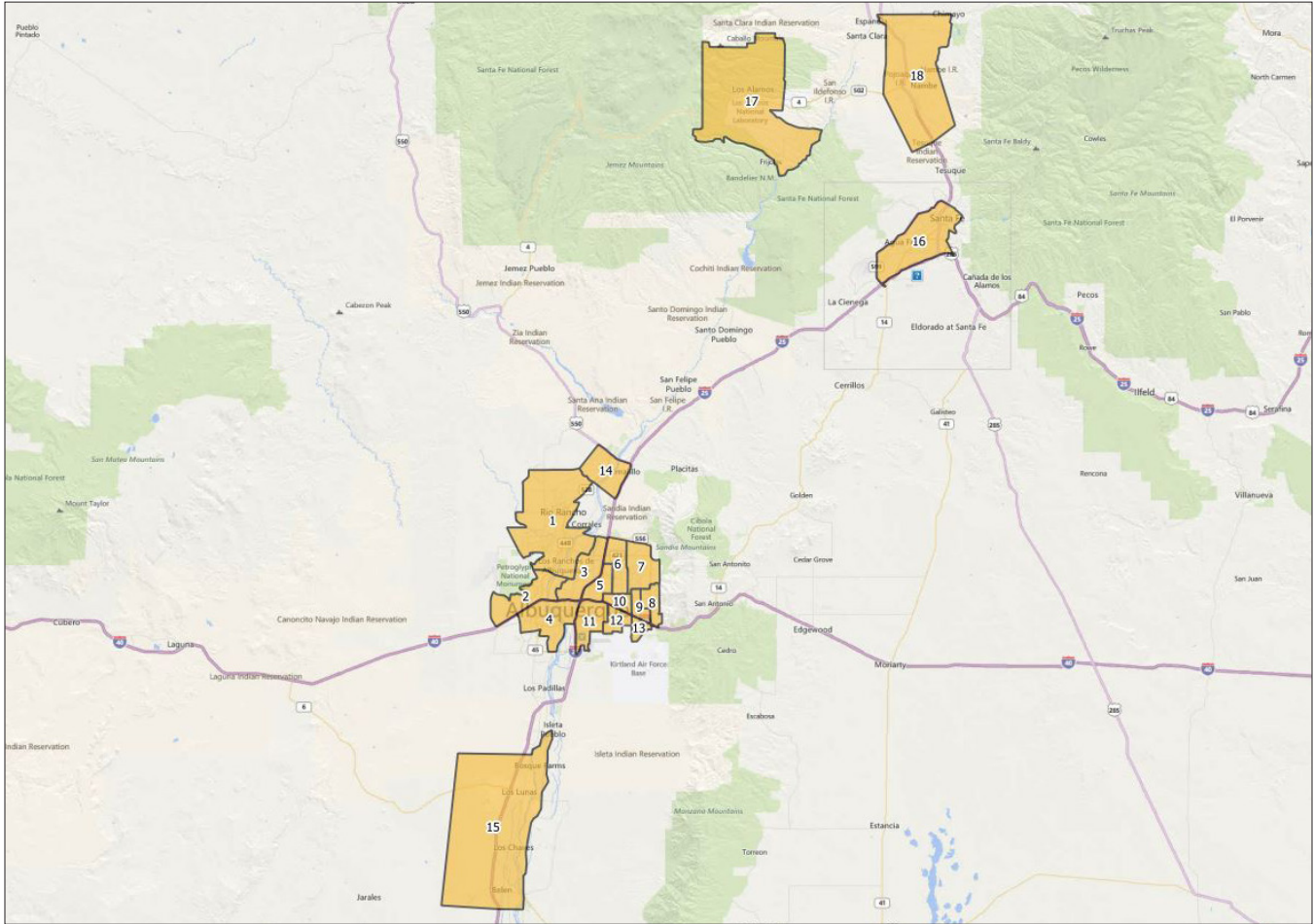Breaks Ground
In Downtown ABQ

Tribute Enters New Mexico
Through Santa Fe

Facebook Selects ABQ
For $1.8B Data Center

Old Town's Hotel Chaco
Announces Opening Date

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Albuquerque Submarkets

Area #	Submarket
1	Paradise Hills
2	Westside
3	North Valley
4	Downtown/South Valley
5	Balloon Fiesta Park - West
6	Balloon Fiesta Park - East
7	Eastside
8	Chetwood Park
9	La Cuesta

Area #	Submarket
10	Vista Encantada
11	Midtown/University
12	Uptown
13	Canada Village
14	Sandia Pueblo
15	Los Lunas
16	Santa Fe
17	Los Alamos

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

▪ *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;

▪ *Students*, who also may span a range of income capability, extending from affluent to barely getting by;

▪ *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;

▪ *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;

▪ *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;

▪ *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

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