

**Yardi® Matrix**

# **Albuquerque: On the Mend**

**Multifamily Report Spring 2017**

**Development Targets Core Areas**

**Multifamily Sales Temper**

**Working-Class Segment Leads Rent Gains**

## Market Analysis

Spring 2017

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## Tight Inventory, Higher Rents

Albuquerque's multifamily market is held back by the city's persistent struggle with a sluggish labor market. Despite being the hub of New Mexico's technology corridor, the metro has only experienced modest population and employment growth throughout the recent economic expansion.

Employment gains have been limited largely because the manufacturing sector has been hit by—among other things—job cuts at Intel, one of the metro's largest employers. However, prominent construction projects are expected to boost several sectors in the Los Lunas submarket, where Facebook is spending \$1.8 billion on a new data center. To meet Facebook's need for renewable energy, locally based Affordable Solar plans to build three solar farms. Also in the works are the \$30 million expansion of Albuquerque's International Sunport Airport and a \$135 million medical center in Santa Fe developed by Presbyterian Health Services. Moreover, Xcel Energy broke ground on the southeastern New Mexico portion of a \$400 million transmission line that will connect the state to Texas.

Property transaction and development volumes have been modest. Multifamily investment totals slowed in 2016, and transaction volume dropped 45% from 2015's cycle high. Furthermore, only 85 new units are projected to be delivered this year. Yardi Matrix expects rents to grow by 3.1% in 2017. Demand in Albuquerque may not be strong, but unlike most of the country, there is little new supply.

## Recent Albuquerque Transactions

Green Leaf Cottonwood



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

Avaria of Santa Fe



City: Santa Fe  
Buyer: Virtu Investments  
Purchase Price: \$18 MM  
Price per Unit: \$107,103

Warren Park



City: Albuquerque  
Buyer: AMG Realty Group  
Purchase Price: \$5 MM  
Price per Unit: \$50,336

Warren Sandia



City: Albuquerque  
Buyer: AMG Realty Group  
Purchase Price: \$5 MM  
Price per Unit: \$31,617

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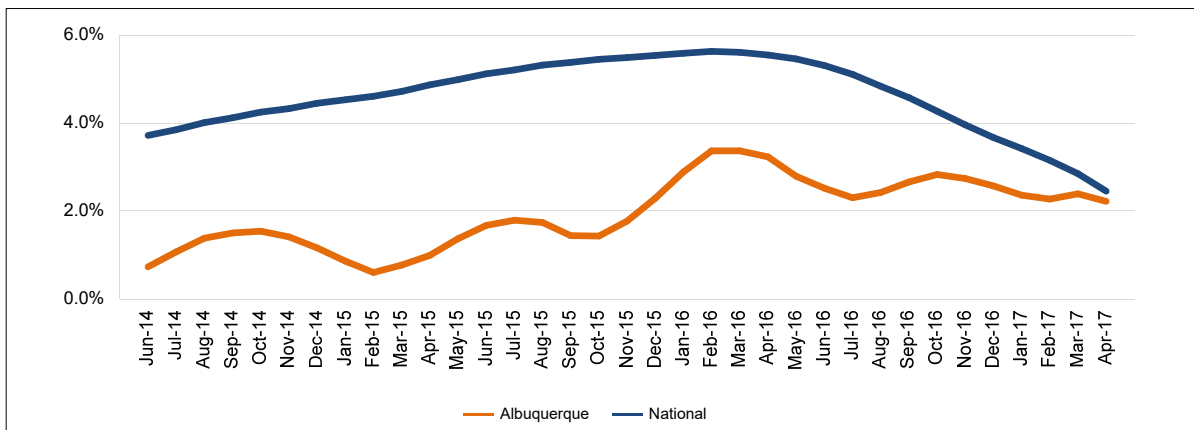
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## Rent Trends

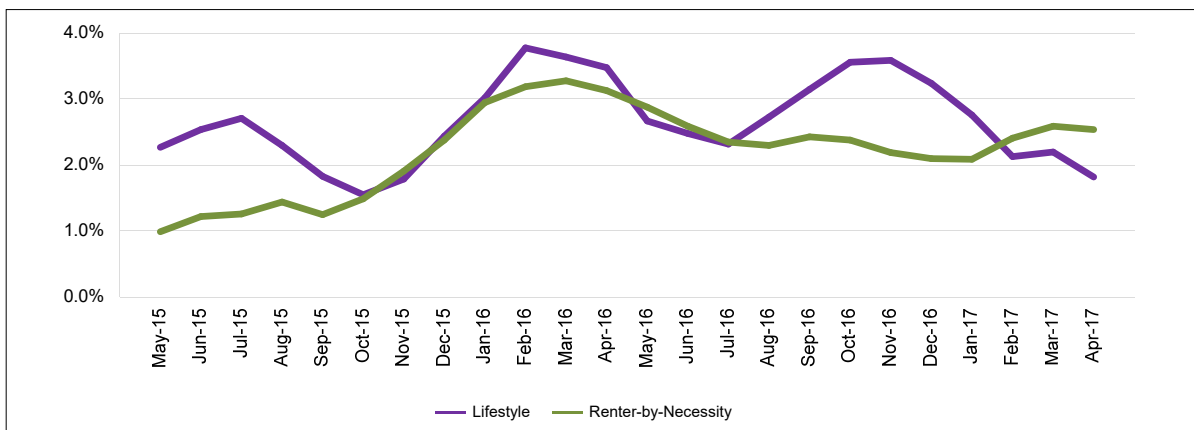
- Rents in Albuquerque rose 2.2% year-over-year as of April 2017, slightly above the 2.0% national rate. Average rent is \$826, substantially trailing the \$1,314 nationwide figure. Yardi Matrix forecasts 3.1% rent growth in the metro this year. Even though demand will be tepid, the limited amount of new supply will continue to facilitate moderate rent increases.
- The working-class Renter-by-Necessity (RBN) segment led gains, rising to \$754 and marking a 2.5% year-over-year increase as of April. The gap in rent growth is expanding between RBN and the higher-end Lifestyle segment, which rose only 1.8% to \$986 as of April. Albuquerque's rental market has been relatively stable: The metro avoided the severe occupancy and rent declines experienced by many Southwest markets during the Great Recession. Given the lack of new supply, the composition of rental inventory is unlikely to change significantly in the near future. The occupancy rate for stabilized properties was 94.4% as of March.
- Rent growth has been strongest in Los Lunas, a highly sought-after submarket, following Facebook's announcement that it would build a \$1.8 billion data center in the area. In this southern submarket, average rent rose 13% to \$987. Other submarkets with strong rent growth include Santa Fe (4.3%) and Downtown/South Valley (3.5%), as well as the Eastside and Los Alamos, which both experienced 2.8% rent growth.

### 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)

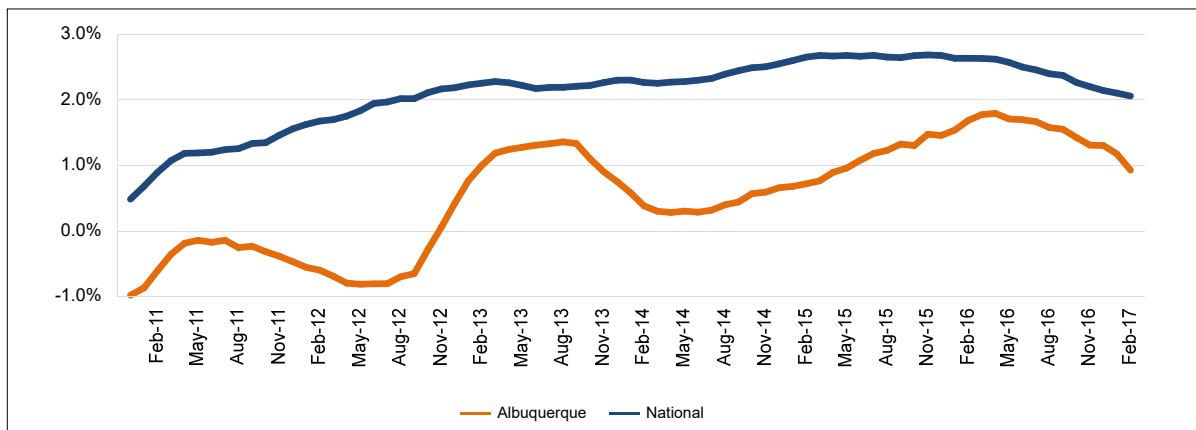


Source: YardiMatrix

## Economic Snapshot

- Albuquerque added only 300 jobs in the year ending in February. Recent employment growth has been significantly slower than last year's rate of 1.7%, and the city still lags the 2.1% national average for job creation.
- Employment growth has been most consistent in the education and health services sector, which added 1,000 jobs. The trade, transportation and utilities and information sectors also added 1,100 jobs combined. However, substantial job cuts in manufacturing (-1,200) muted overall job expansion. Intel, Albuquerque's largest manufacturer, dropped 700 employees last year, due in part to automation.
- Facebook's multibillion-dollar data center in Los Lunas is underway, so the construction sector will likely see a boost in jobs. Affordable Solar plans to invest \$45 million in building three solar farms to support Facebook's data center. Moreover, the Albuquerque International Sunport Airport is undergoing a \$30 million renovation, its first major upgrade in the last three decades. Also underway is the Albuquerque Rapid Transit project that will connect the downtown area via east- and west-dedicated bus lanes.
- Leasing activity in the Albuquerque office market is also tepid, but only 300,000 square feet of Class A office space is available, so old buildings—including 500 Marquette, which was built downtown in 1986—are being redeveloped to meet the demand for amenity-rich offices.

### 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	%
65	Education and Health Services	77	17.2%	1,000	1.3%
40	Trade, Transportation and Utilities	74	16.5%	600	0.8%
50	Information	9	2.0%	500	6.0%
80	Other Services	15	3.3%	300	2.1%
15	Mining, Logging and Construction	23	5.1%	200	0.9%
55	Financial Activities	21	4.7%	-	0.0%
70	Leisure and Hospitality	51	11.4%	(200)	-0.4%
90	Government	101	22.5%	(400)	-0.4%
60	Professional and Business Services	62	13.8%	(500)	-0.8%
30	Manufacturing	16	3.6%	(1,200)	-7.0%

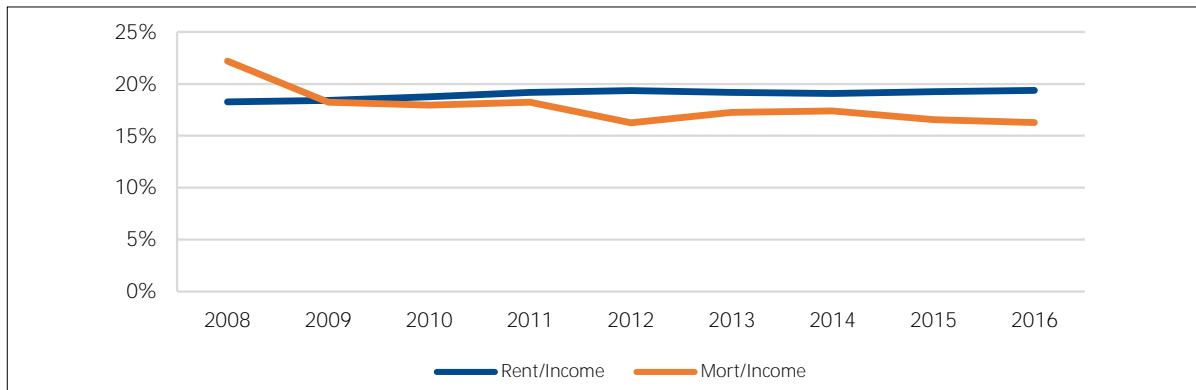
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

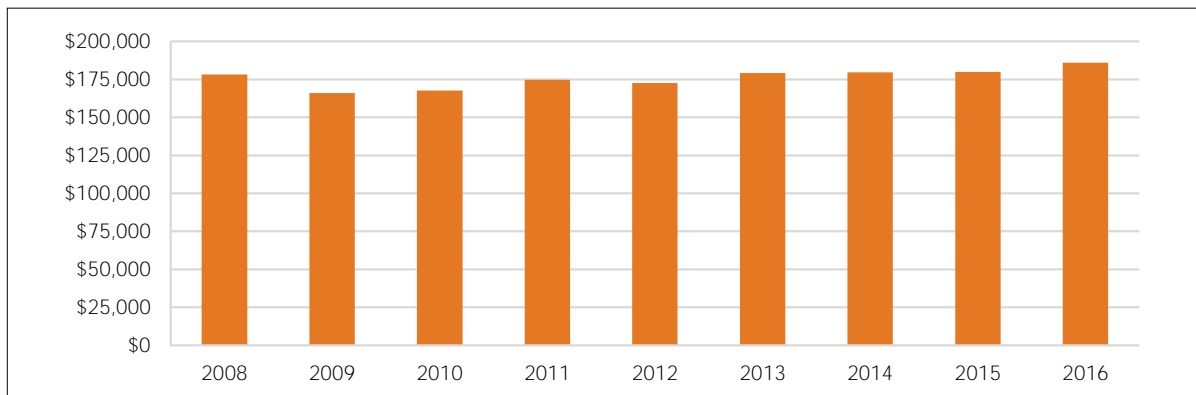
- Albuquerque continues to be a relatively affordable metro, with the average mortgage payment accounting for 16% of the area's median income, as compared to a national proportion of 28%. At the same time, median home values hit a new high of \$186,054 in 2016, representing a 3.4% year-over-year increase.
- Homeownership in Albuquerque is more affordable than renting, due to the average rent of \$826, comprising 19% of the area's median income in 2016. Contributing to this upward pressure on rents is a limited stock of available units. Albuquerque has established high affordability requirements for new residential development, further limiting the supply of new 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

- Albuquerque grew by only 4,700 residents in 2016, a mere 0.5% bump, slightly under the 0.7% national rate.
- The metro's population has risen only 1.0% since 2012.

### Albuquerque vs. National Population

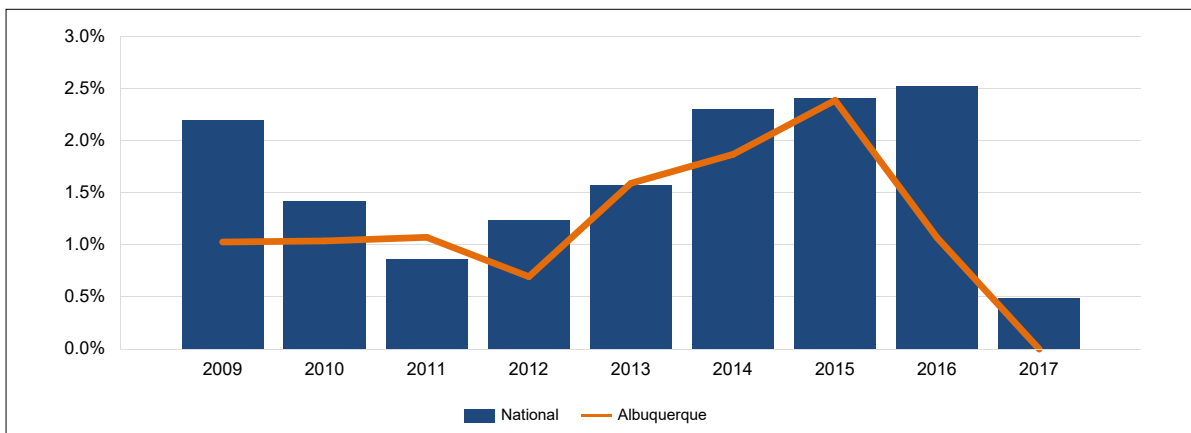
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Albuquerque Metro	900,781	902,911	903,658	905,174	909,906

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

## Supply

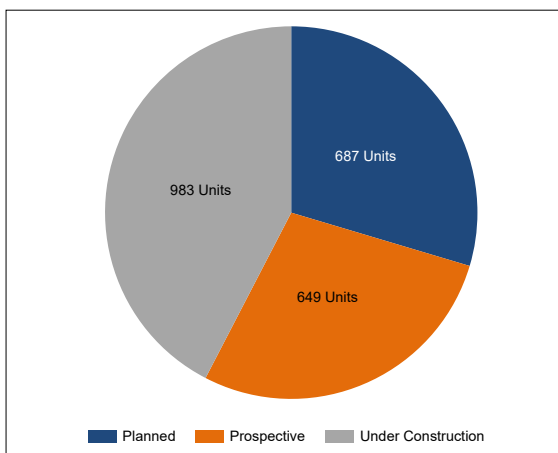
- Multifamily development in Albuquerque remains limited, with only 553 units delivered in 2016. This represents a 1.1% increase in the area's apartment stock, severely lagging the 2.5% national growth rate. The 2016 inventory expansion in Albuquerque was less than half of the total completions in 2015, which saw a cycle high of 1,223 units.
- New supply is coming online slowly. There are currently almost 1,000 units under construction and 2,320 units in various stages of development. More than half of the apartment communities built in the metro are geared toward low-income tenants, so the inventory of market-rate rentals is limited. Only 85 new apartment units are expected to be completed this year, according to Yardi Matrix.
- The scarcity of vacant land suitable for development has resulted in most new apartment construction taking place in Albuquerque's urban core. Inventory growth is occurring mainly in Downtown/South Valley (506 units) and North Valley (226 units). The largest projects under development are GSL Properties' 240-unit, fully affordable Village at Avalon and the 226-unit Broadstone Northpoint, co-developed by Titan Development and Alliance Residential.

### Albuquerque vs. National Completions as a Percentage of Total Stock (as of April 2017)



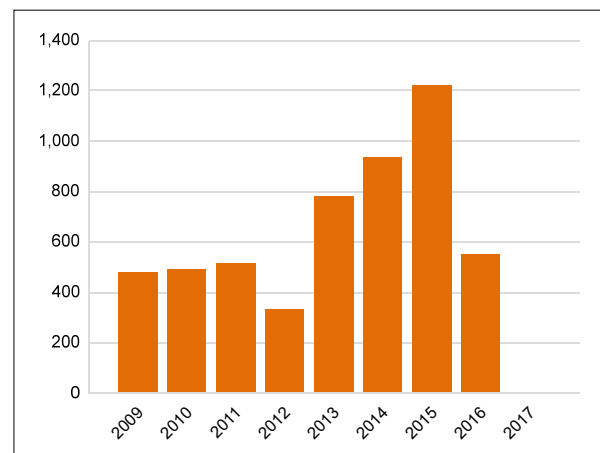
Source: YardiMatrix

### Development Pipeline (as of April 2017)



Source: YardiMatrix

### Albuquerque Completions (as of April 2017)

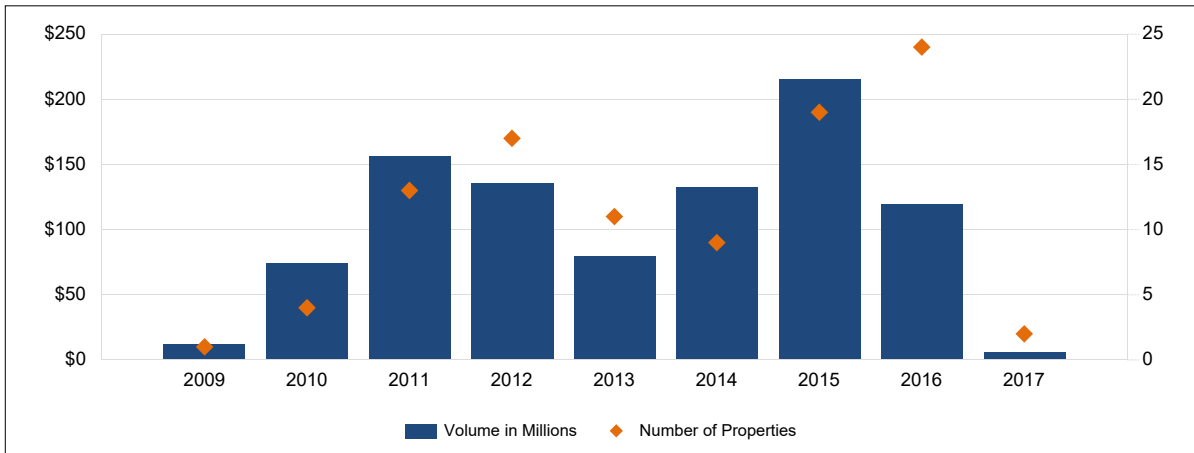


Source: YardiMatrix

## Transactions

- As of April, \$29 million in multifamily sales had been completed in 2017. Last year, transaction volume in Albuquerque was only \$120 million, a 45% drop from 2015's cycle high. The city's slow population growth and limited inventory have led to a tempered multifamily sales market.
- The average price per unit was \$72,779 year-to-date in 2017 through April, though this average is understated because so far in 2017 there have been no transactions in the more expensive Lifestyle tier.
- Submarkets in the urban core are the most desirable, with the corridor around Interstate 40, east of downtown, attracting investment capital. The largest transaction to date in 2017 has been Chartwell Capital's acquisition of the 260-unit, mid-range property Prairie Hills from Prime Group for \$24 million, or \$91,344 per unit.

### Albuquerque Sales Volume and Number of Properties Sold (as of April 2017)



Source: YardiMatrix

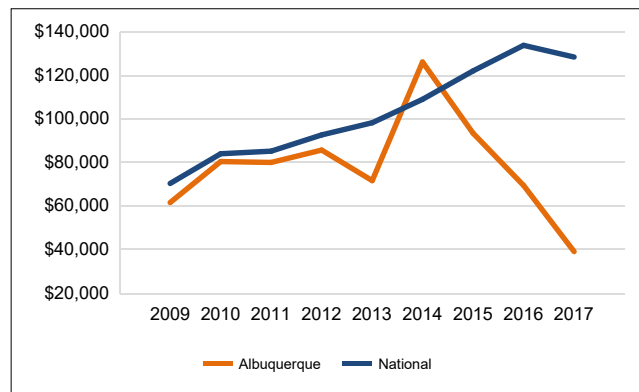
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Paradise Hills	35
Uptown	32
Santa Fe	18
Midtown/University	7
Balloon Fiesta Park-West	2
La Cuesta	2

Source: YardiMatrix

<sup>1</sup> From May 2016 to April 2017

### Albuquerque vs. National Sales Price per Unit



Source: YardiMatrix

# Read All About It!



Albuquerque Project Targets Homeless Crisis



Senior Community Awarded \$500,000 AHP Grant



Albuquerque Flagship Clinic Changes Hands



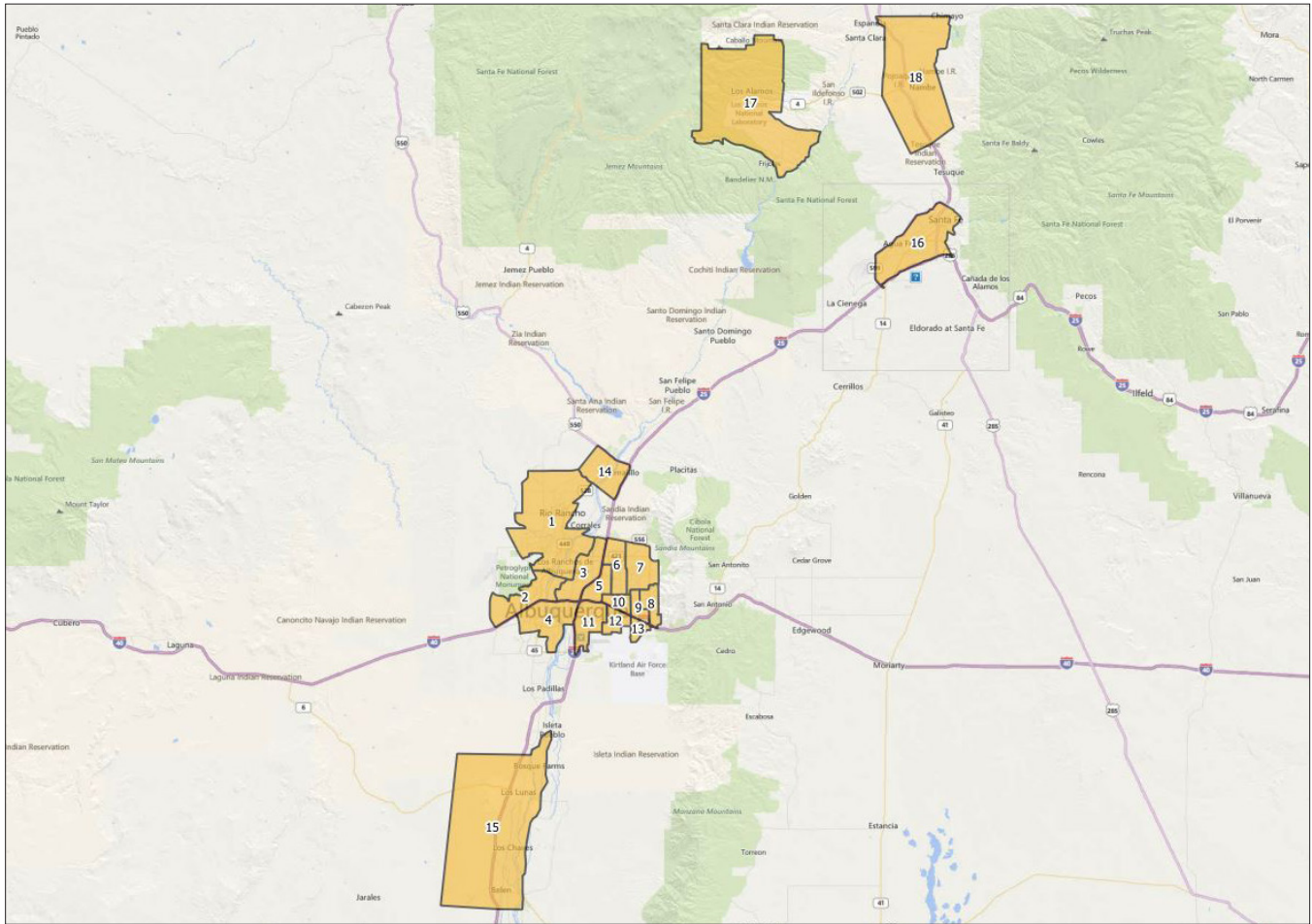
Heritage Hotels Adds The Inn and Spa at Loretto To its Portfolio

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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

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## 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.

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