



Yardi® Matrix

Slow Going in Albuquerque

Multifamily Report Fall 2017

Tight Inventory, Higher Rents

Occupancy Rising Amid Low Deliveries

Education, Health Care Strongest in Job Growth

Market Analysis

Fall 2017

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Duke City Strives to End Woes

Albuquerque continues to be one of the less dynamic metros in the U.S. The long-lasting slowdown is due, in part, to a struggling job market. With one of the highest unemployment rates in the nation and moderate population growth, the metro's real estate fundamentals continue to lag those of neighboring areas.

Job gains have been limited, concentrated in the education and health services; financial activities; government; and trade, transportation and utilities sectors. The manufacturing sector has been experiencing a downturn in the metro during this cycle. Most recently, Intel laid off 700 employees. According to the state's economic development department, manufacturing employment is down 9% in New Mexico since 2012. On the other hand, Facebook announced that the first \$250 million phase of its data center is set to open late next year. The social networking company revealed plans to add a second building at its Los Lunas facility, bringing the center's total footprint close to 1 million square feet. More than 80% of the 650 workers who operate the facility are New Mexico residents.

Investment continues to be modest, but on the upswing, with \$202 million in multifamily assets trading through July, outpacing 2016's total transaction volume by nearly 69%. With no new stock so far this year and only 1,200 units underway, rents will most likely increase gradually. Yardi Matrix forecasts 3.1% rent growth for Albuquerque by year-end.

Recent Albuquerque Transactions

Mountain Run



City: Albuquerque, N.M.
Buyer: Gelt
Purchase Price: \$51 MM
Price per Unit: \$107,277

Spain Garden



City: Albuquerque, N.M.
Buyer: DiNapoli Capital Partners
Purchase Price: \$40 MM
Price per Unit: \$80,444

The Retreat at Candelaria



City: Albuquerque, N.M.
Buyer: DiNapoli Capital Partners
Purchase Price: \$36 MM
Price per Unit: \$70,437

Prairie Hills



City: Albuquerque, N.M.
Buyer: Chartwell Capital Partners
Purchase Price: \$24 MM
Price per Unit: \$91,344

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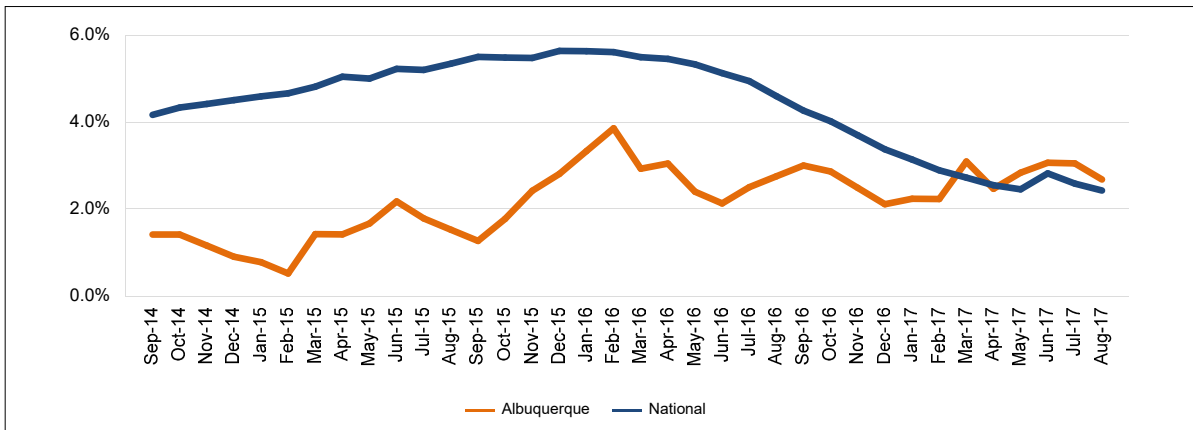
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Rent Trends

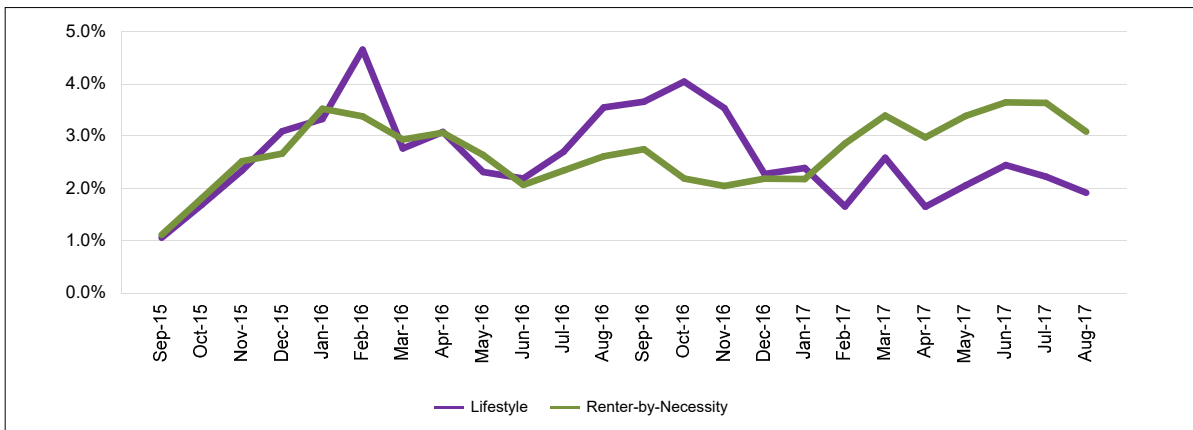
- Rents in Albuquerque were up 2.7% year-over-year through August, 30 basis points above the national growth rate. However, at \$844, they continue to severely trail the \$1,352 U.S. average. With no units delivered so far this year and modest employment growth, rents will continue to increase slightly. Yardi Matrix expects rents to grow by 3.1% in the metro by the end of 2017.
- Rent growth was led by the Renter-by-Necessity segment, which rose 3.1% year-over-year through August to \$768. The gap in rent growth is still significant between assets the working-class segment and those in the higher-end Lifestyle segment, which rose only 1.9% to \$1,010. Confidence in construction continues to be low, with Albuquerque still slowly moving toward recovery. Moreover, the scarcity of available land and strict building regulations are making it difficult for developers to invest in the metro. As a result, the occupancy rate for stabilized properties of 95.3% as of July was only 30 basis points below the national rate.
- Rent growth continued to be strongest in Los Lunas, which is feeling the effects of Facebook's plan to invest \$1.8 billion in its seventh data center worldwide. In this highly sought-after southern submarket, rents rose 28% to \$1,129. Other submarkets with substantial rent growth include Midtown/University (7.4%), Sandia Pueblo (5.0%) and Santa Fe (3.5%).

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)

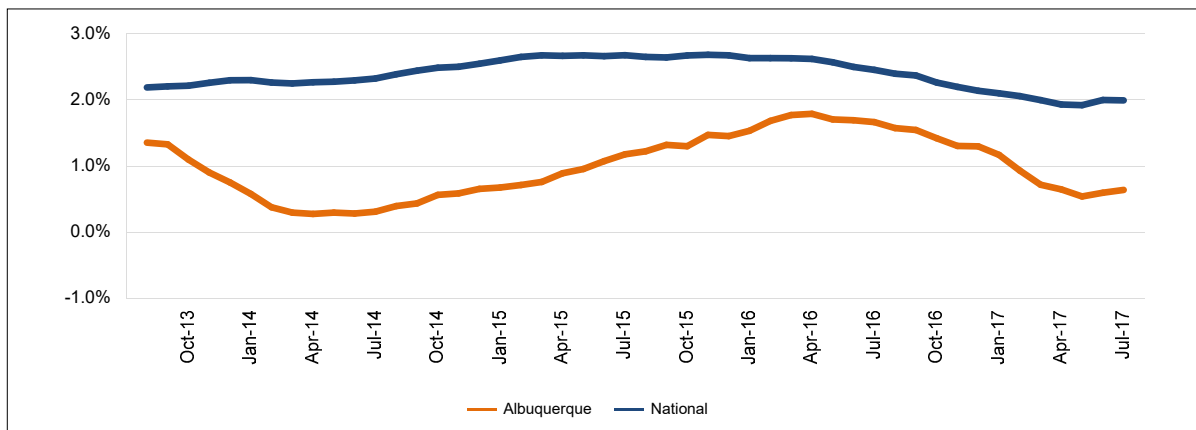


Source: YardiMatrix

Economic Snapshot

- The metro added 5,100 jobs in the 12 months ending in July, up 0.6% year-over-year, but significantly below the 2.0% national rate. Employment in Albuquerque has been decelerating since April 2016.
- Job growth was led by the education and health services sector, which gained 2,700 new positions through July. This sector was supported, among others, by the \$35 million, 160,000-square-foot, mixed-use Lobo Rainforest project at the University of New Mexico. The financial activities; government; and trade, transportation and utilities sectors also added more than 3,000 jobs combined. The defense sector is also expanding in the metro: Kirtland Air Force Base is the largest employer in the region. The newest trend to emerge in the area is the growing number of companies capitalizing on the need for unmanned aircraft systems or drones. Moreover, Facebook in July announced plans to expand its data center project to include a second 460,000-square-foot building.
- The Albuquerque office market is slowly improving, primarily in the urban core. There are two new office buildings in the city—the 38,000-square-foot building for Souder, Miller & Associates and New Life City Church and the 21,530-square-foot medical building in the Rio Rancho submarket. These office construction projects are the first to be completed in the Albuquerque since the end of 2011.

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	16.8%	2,700	3.7%
55	Financial Activities	22	4.8%	1,100	5.3%
40	Trade, Transportation and Utilities	75	16.4%	1,000	1.3%
90	Government	98	21.4%	1,000	1.0%
15	Mining, Logging and Construction	25	5.5%	600	2.4%
70	Leisure and Hospitality	56	12.3%	400	0.7%
50	Information	9	2.0%	0	0.0%
80	Other Services	16	3.5%	-400	-2.5%
30	Manufacturing	16	3.5%	-600	-3.6%
60	Professional and Business Services	63	13.8%	-700	-1.1%

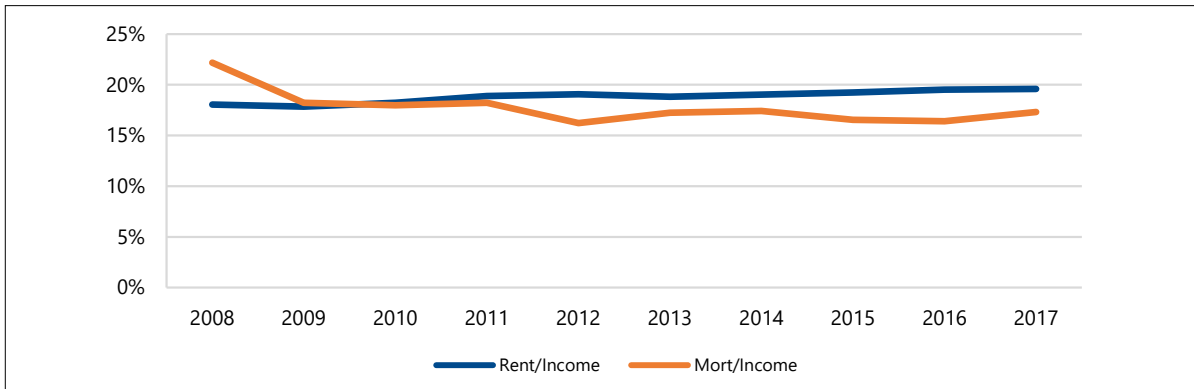
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

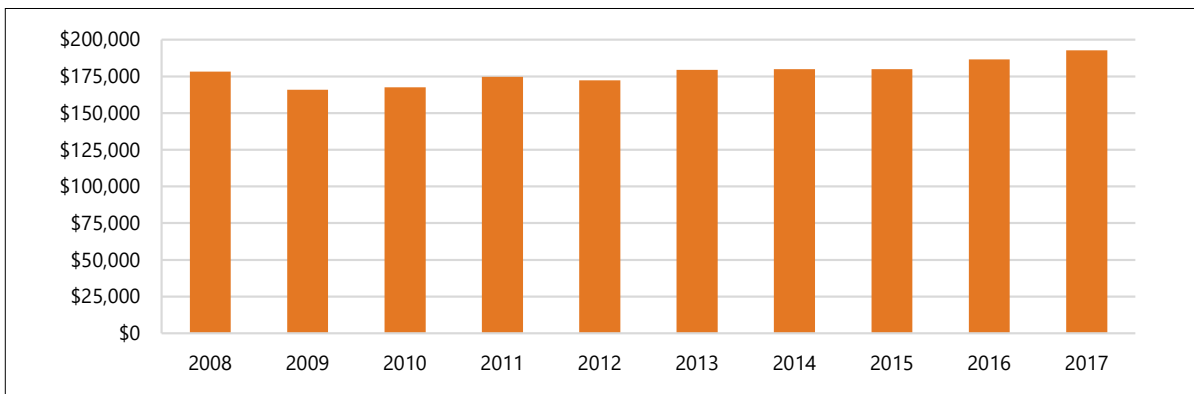
- Albuquerque is doing relatively well at preserving housing affordability, although home values in the first two quarters of the year hit \$192,735, marking a new cycle high. The average mortgage payment accounts for 17% of the city's median income, while the average rent of \$844 takes up 20%.
- The high affordability requirements for new residential development, combined with limited stock of available units, continues to put pressure on rents. The result is that residents have been pushed into more affordable submarkets such as North Valley or Canada Village. According to a Hoyt Advisory Services research, the metro needs 8,897 additional apartments to keep up with its growing renter segment.

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's population growth is tepid. The metro added 20,267 residents between 2010 and 2016, up 2.3%. The metro added only 4,732 new residents in 2016, well below the 0.7% national growth rate.

Albuquerque vs. National Population

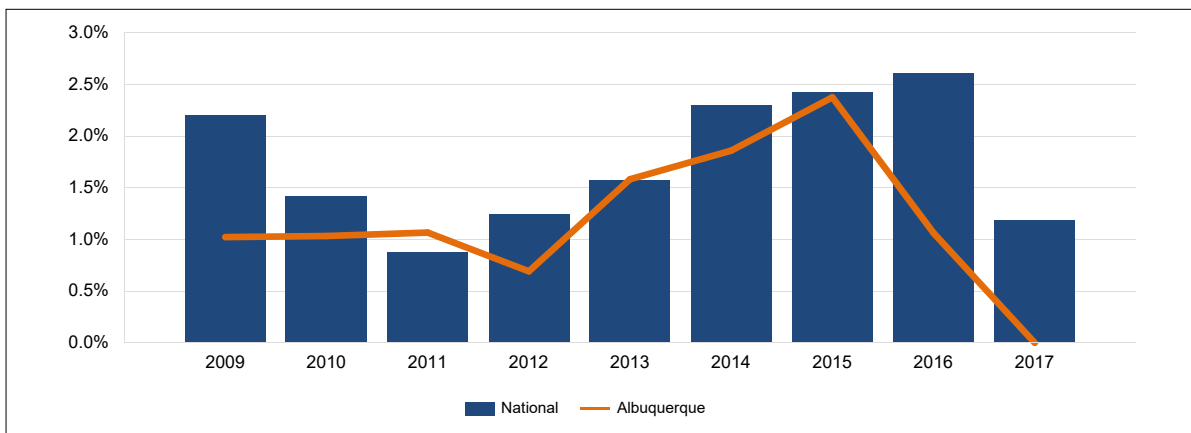
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Albuquerque Metro	900,781	902,911	903,658	905,174	909,906

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

Supply

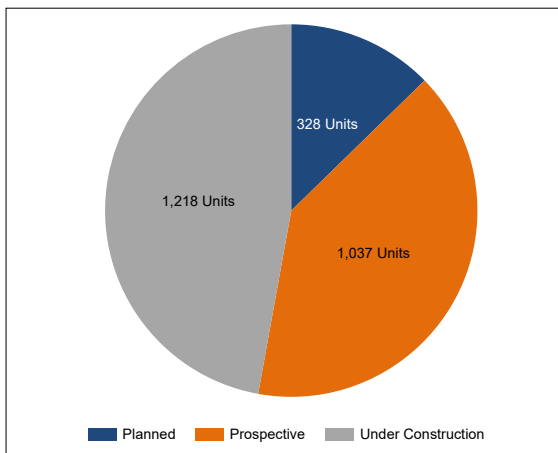
- There were no significant deliveries during the year's first seven months. Completions in Albuquerque were weak in 2016, too, with only 553 units coming online. The limited housing stock expansion in the area has led to a rise in occupancy. Average occupancy rose 50 basis points year-over-year through July, a trend that is likely to continue. According to Yardi Matrix, only 85 new units are expected to be completed by year-end, the smallest number among major U.S. metros.
- The development pipeline remains limited. Roughly 1,200 units are underway, pointing toward a higher rate of delivery. Overall, 2,600 units are in various stages of development. More than half of the communities that are being built in the metro are geared toward low-income renters.
- New supply is concentrated in the urban core, but construction is also active in the North Valley and Downtown/South Valley submarkets, which have more buildable land for developers. The largest project under construction is Village at Avalon, a 240-unit, fully affordable community developed by GSL Properties in downtown Albuquerque. The community will serve residents that work at the nearby employment hub, including employees of FedEx's distribution center.

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



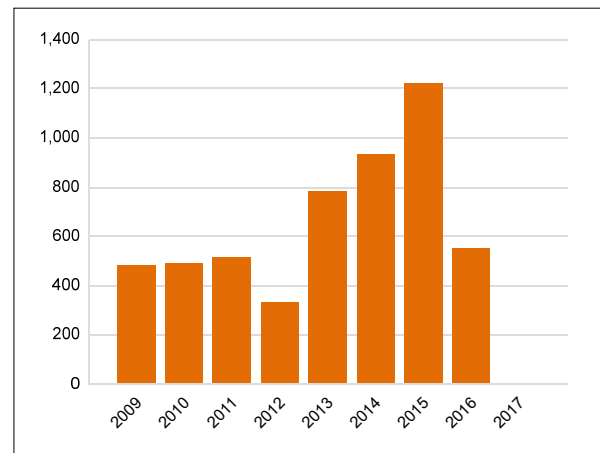
Source: YardiMatrix

Development Pipeline (as of August 2017)



Source: YardiMatrix

Albuquerque Completions (as of August 2017)

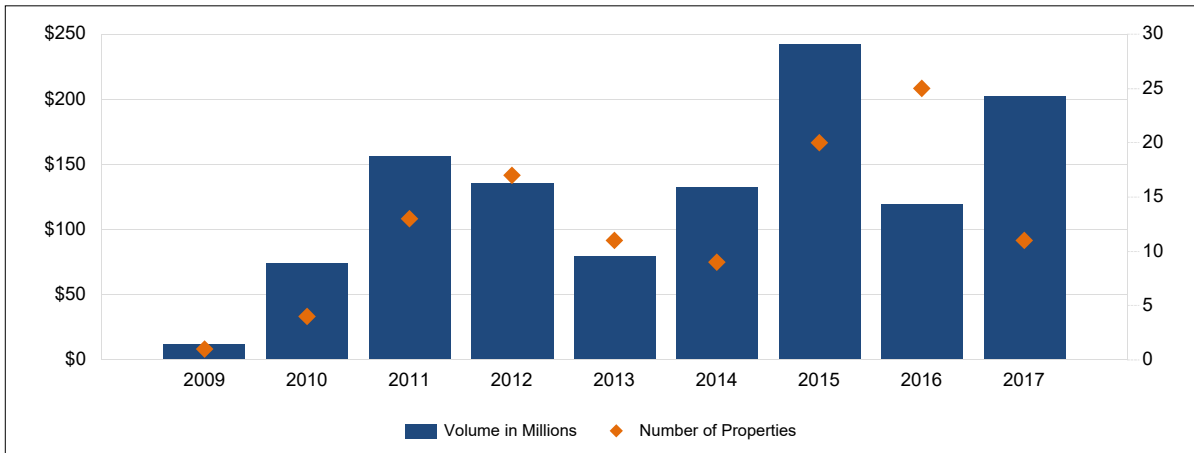


Source: YardiMatrix

Investment Transactions

- Investment activity is weak in Albuquerque, as it lacks the size and growth potential to attract institutions. Roughly \$200 million of transactions have been completed in 2017 through July, already topping the 2016 total volume of \$120 million.
- The average price per unit was \$73,769 year-to-date through July, down 26% from the prior year. Almost all assets that traded were in the Renter-by-Necessity segment, highlighting where investor appetite lies. Acquisition yields have compressed to the 5.5-6.5% range for Class A assets, due to heightened activity.
- The urban core is still the most desirable area for investors, with activity concentrated in La Cuesta, Eastside and Balloon Fiesta Park (East and West). California-based DiNapoli Capital Partners injected the most capital in the market in the 12 months ending in July—almost \$100 million in three properties that encompass 1,232 units.

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



Source: YardiMatrix

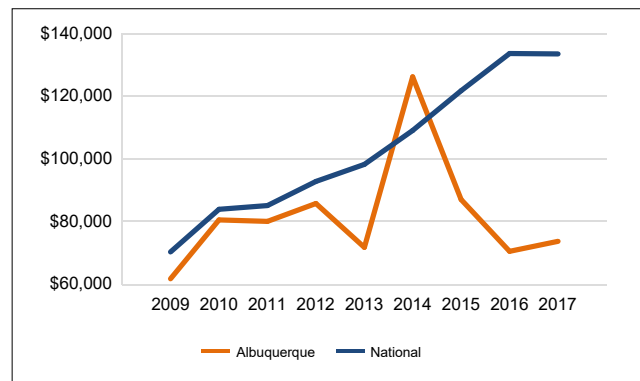
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
La Cuesta	61
Eastside	51
Balloon Fiesta Park–East	40
Balloon Fiesta Park–West	34
Uptown	30
Santa Fe	18
Vista Encantada	15
Midtown/University	7

Source: YardiMatrix

¹ From August 2016 to July 2017

Albuquerque vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Work Begins on Albuquerque's Snow Heights Promenade



Gelt Enters Albuquerque Market



ABQ Embraces Live-Work-Play At Lobo Rainforest Building

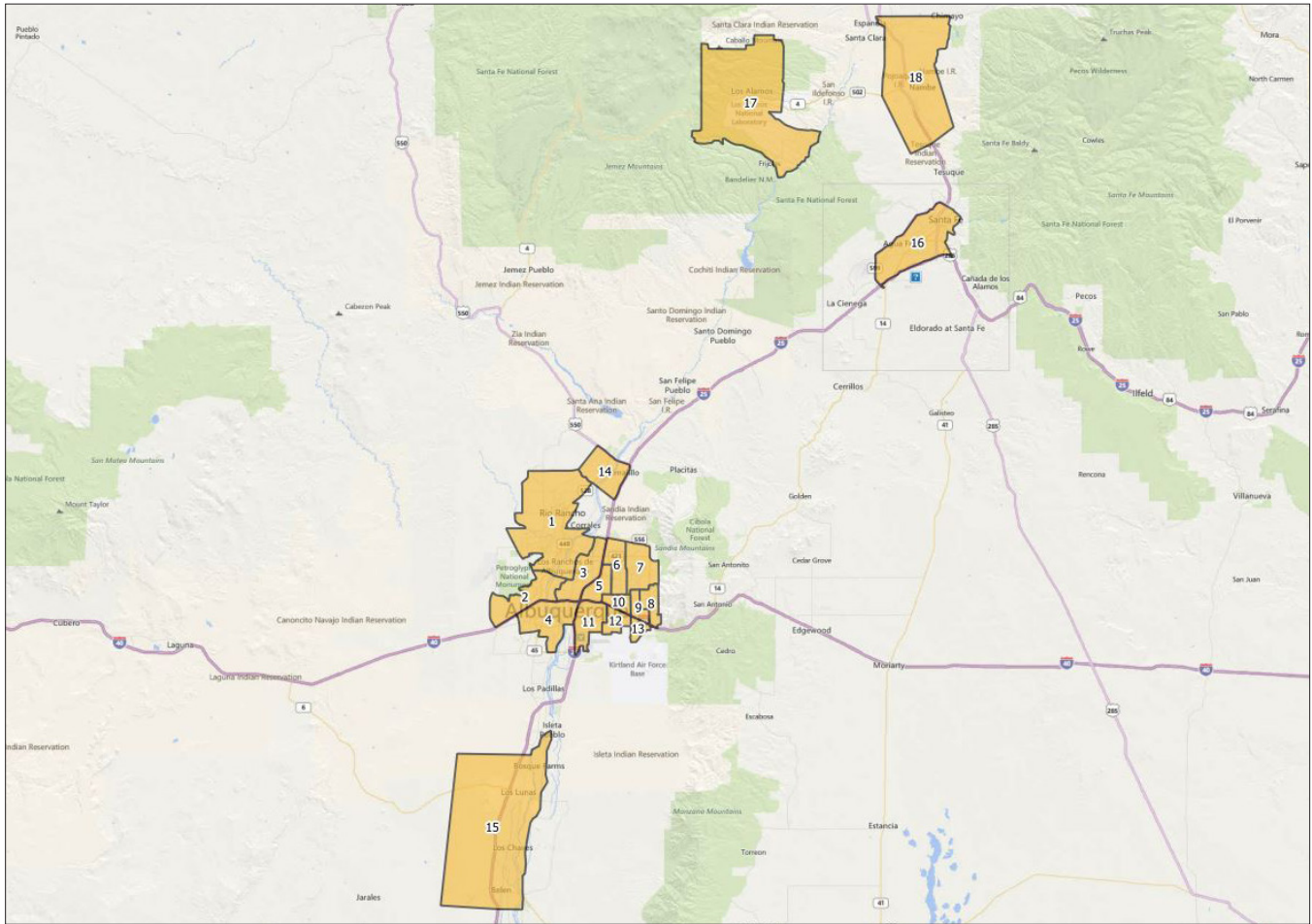


CareTrust REIT Buys Skilled Nursing Facilities In NM, TX

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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.

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