Albuquerque's Lengthy Recovery

Multifamily Report Winter 2018

Renter-by-Necessity Segment Leads Gains

Job Growth Trails U.S. Average

Deliveries Hit Cycle Low

Duke City Struggles on Recovery Path

Although underperforming, the Albuquerque multifamily market is on the mend. Tepid activity is partially due to a lagging pipeline and modest demographic expansion. And even though some of the metro's core submarkets show signs of growth, the suburbs continue a slow recovery from the most recent downturn.

Financial activities and education and health services led job gains in the 12 months ending in October 2017, adding a total of nearly 3,000 positions. Due to an aging population, the health-care industry is set to become the state's primary job driver by 2020, according to the University of New Mexico's Bureau of Business & Economic Research. At the same time, the construction of the $119 million Albuquerque Rapid Transit bus system on the metro's iconic highway Route 66 may prove a catalyst for new projects along its way. Facebook's data center in Los Lunas could also prove crucial in attracting a factor key to the metro's future economic development: Millennials. This would be a sign that the local real estate market is ready to overcome its post-downturn slump. Despite fundamentals slowing in 2017, Albuquerque's growth is in line with historical averages.

Construction decelerated quickly after 2015's cycle high of 1,223 units. As of December, almost 1,320 units were underway, but Yardi Matrix projects that only 137 units will come online in 2018. As a result, we expect that rents in Albuquerque will likely continue their slow climb, appreciating by 2.7% in 2018.

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

Rent Trends

- Rents in the metro rose 3.4% last year, 90 basis points above the national rate. Albuquerque rent growth bucked the U.S. average in the second half of 2017, mainly due to a lack of new deliveries. At an average of $852, rents continue to trail the $1,359 national figure.

- The working-class Renter-by-Necessity segment led gains, increasing by 4.4% in 2017, to $780. The gap between RBN and the Lifestyle segment is still substantial, with upscale rents rising 2.3%, to $1,011. The spread is likely to continue contracting this year as most of the projects underway are targeting low-income renters.

- Rents spiked in the small Los Lunas submarket, where Facebook is building a massive data center campus: At $1,129, rents were up 34.6% in 2017. Sandia Pueblo (10.4%) also recorded double-digit growth. Submarkets with the highest rental rates include Midtown/University ($1,133), Santa Fe ($1,060) and Los Alamos ($993).

- As few construction permits were issued last year and new supply is scarce, the occupancy rate in stabilized Albuquerque properties was up 30 basis points year-over-year, at 95.4% as of November, roughly on par with the 95.3% U.S. average. With just 89 units delivered in 2017, rents are bound to continue their upward trajectory. Yardi Matrix expects rents to grow by 2.7% this year.

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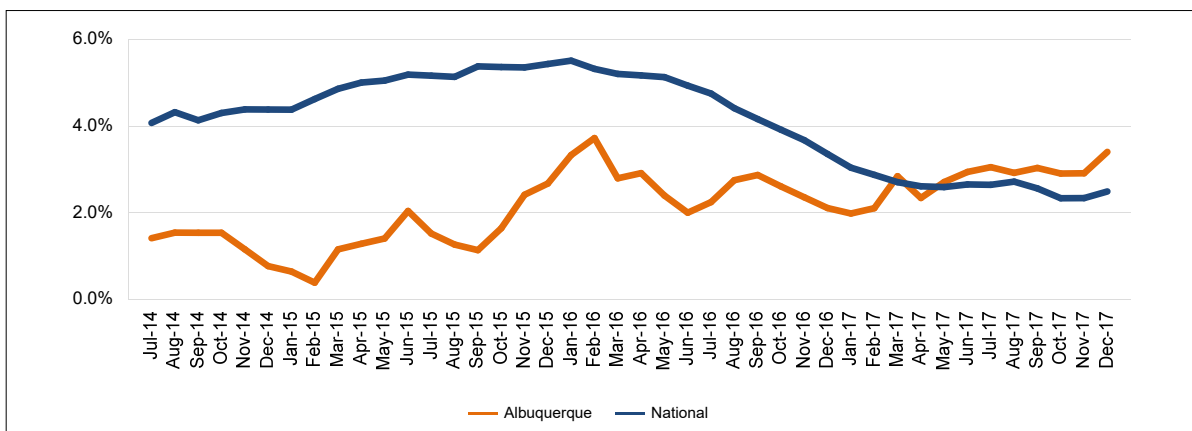
Source: YardiMatrix

**Albuquerque Rent Growth by Asset Class** (Sequential 3-Month, Year-Over-Year)
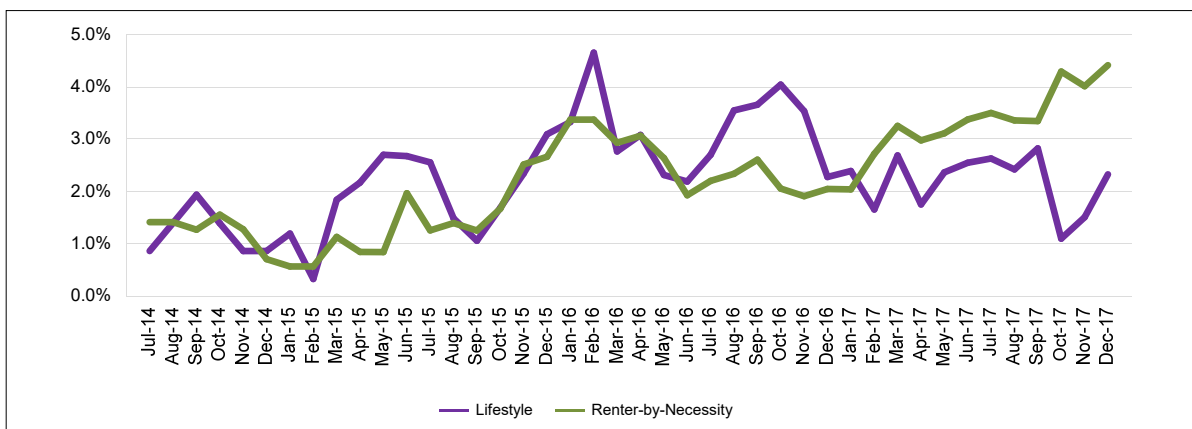
Source: YardiMatrix

Economic Snapshot

- Albuquerque added 6,400 jobs in the 12 months ending in October, a 1.0% year-over-year increase, trailing the U.S. average by 80 basis points.

- New employment has been most consistent in financial activities and education and health services, with each sector adding 1,400 jobs through October. Health Education Building III is a $27.3 million project that is slated to provide new space for University of New Mexico's health sciences program. Professional and business services and leisure and hospitality gained a combined 2,400 positions. The latter industry received a boost from, among others, the nearly $40 million investment in One Central, an entertainment development in downtown Albuquerque, as well as the $40 million renovation of Isleta Resort & Casino. The construction sector is also likely to benefit from Facebook's November announcement that it would add four more buildings totaling 1.8 million square feet at a cost of $500 million at the company's Los Lunas data center. With this, the project reached a total of 2.8 million square feet, with the price tag surpassing the $1 billion mark.

- Several revitalization projects and office developments are in progress, primarily downtown. Roughly 60,000 square feet of Class A office space are under construction on the second level of Winrock Town Center, a new mixed-use development.

Albuquerque vs. National Employment Growth (Year-Over-Year)
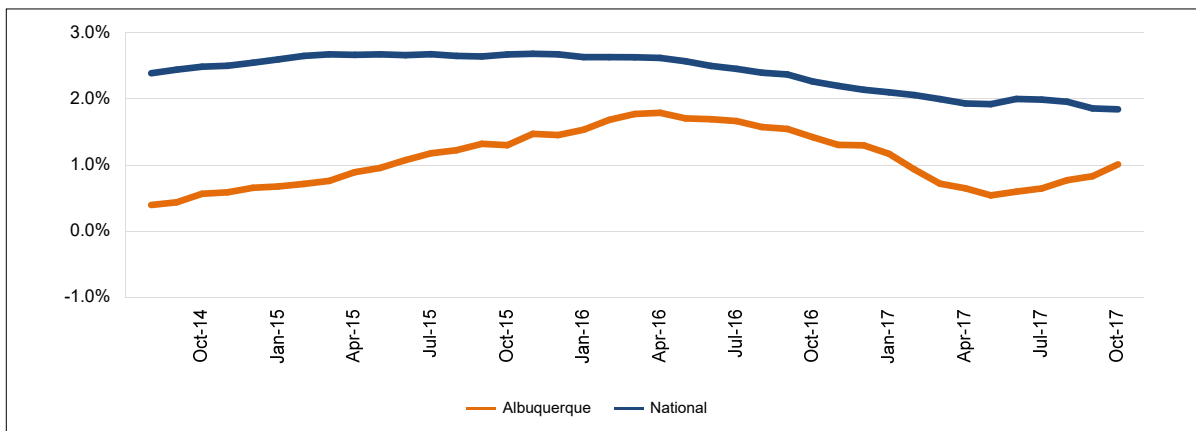
Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

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

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
55	Financial Activities	22	4.8%	1,400	6.7%
65	Education and Health Services	78	17.0%	1,400	1.8%
60	Professional and Business Services	64	13.9%	1,300	2.1%
70	Leisure and Hospitality	53	11.5%	1,100	2.1%
15	Mining, Logging and Construction	26	5.7%	1,000	4.0%
90	Government	102	22.2%	700	0.7%
40	Trade, Transportation and Utilities	75	16.3%	100	0.1%
50	Information	9	2.0%	-100	-1.1%
80	Other Services	15	3.3%	-100	-0.7%
30	Manufacturing	16	3.5%	-400	-2.4%

Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

Affordability

- Home prices in Albuquerque have continued to increase during the cycle, due in part to a limited stock of available units. The median home value reached a new cycle high of $194,899 in 2017, up 17.4% from the 2009 trough. Nonetheless, Albuquerque continues to rank among the country's most affordable metros.

- Renting is more expensive than owning in the metro, with the average rent of $852 accounting for 19% of the area's 2017 median income. Building in Albuquerque has become challenging for developers due to the scarcity of vacant parcels and high construction costs. The city's Workforce Housing Trust Fund has acted as a financial endorser of several affordable housing developments now underway across Albuquerque.

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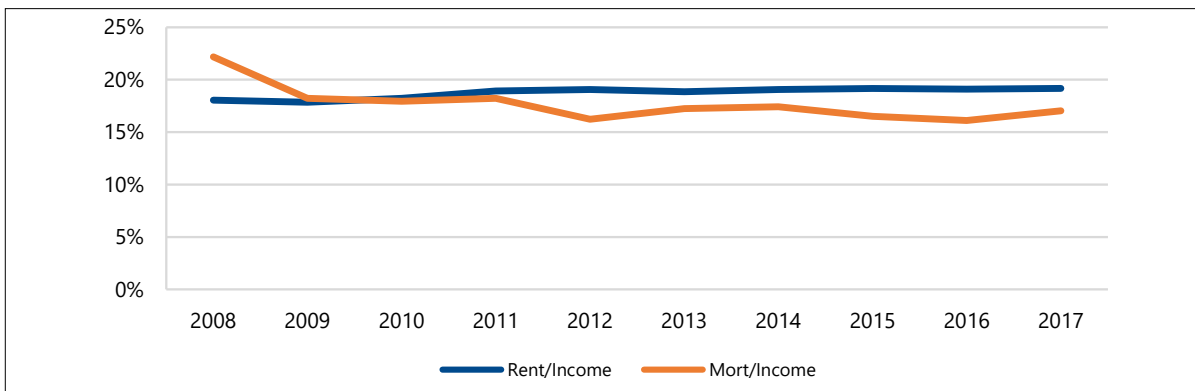
Sources: YardiMatrix, Moody's Analytics

Albuquerque Median Home Price
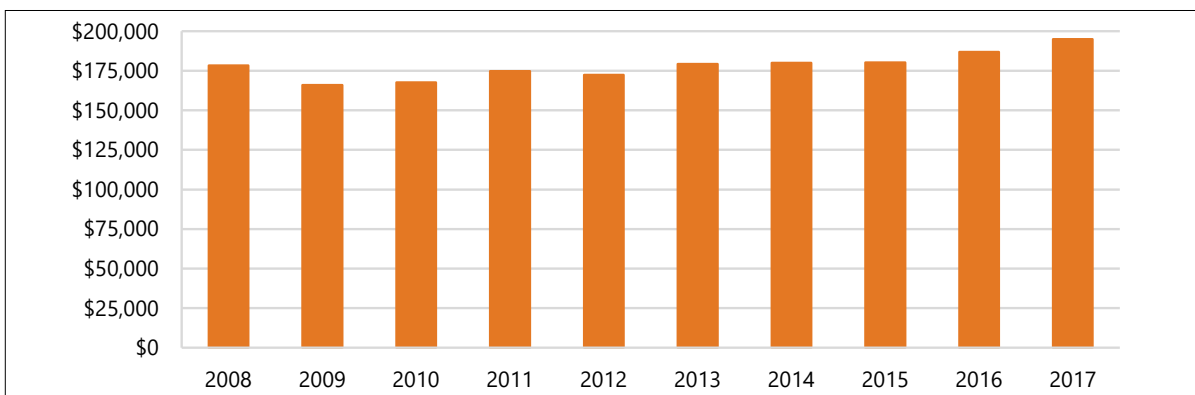
Source: Moody's Analytics

Population

- Between 2010 and 2016, Albuquerque gained around 20,000 residents, at a 2.3% growth rate, half the U.S. average.

- In 2016, the metro trailed the 0.7% national growth rate by 20 basis points.

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 continues to be limited, with only 89 units delivered in 2017, a new cycle low. This represents 0.2% of the metro's apartment stock, severely lagging the 2.4% national rate.

- New supply is being delivered slowly. There were rougly 1,300 units under construction as of December, pointing toward a slightly higher delivery rate in 2018. Half of the communities underway are targeting low-income renters. Including planned and prospective projects, Albuquerque's total pipeline encompasses more than 3,000 units.

- The pipeline targets the urban core because of a general lack of flat, buildable land with access to infrastructure and utilities. With 613 units under construction, Downtown/South Valley is the submarket leading development.

- GSL Properties' Village at Avalon, the largest community underway, is slated to deliver 240 fully affordable units in Downtown/South Valley. The same submarket is set to add 200 units when H & K's Merhan Lofts is completed. The 232-unit Markana in Balloon Fiesta–East and the 226-unit Broadstone Northpoint in North Valley are also scheduled to open within the next four quarters.

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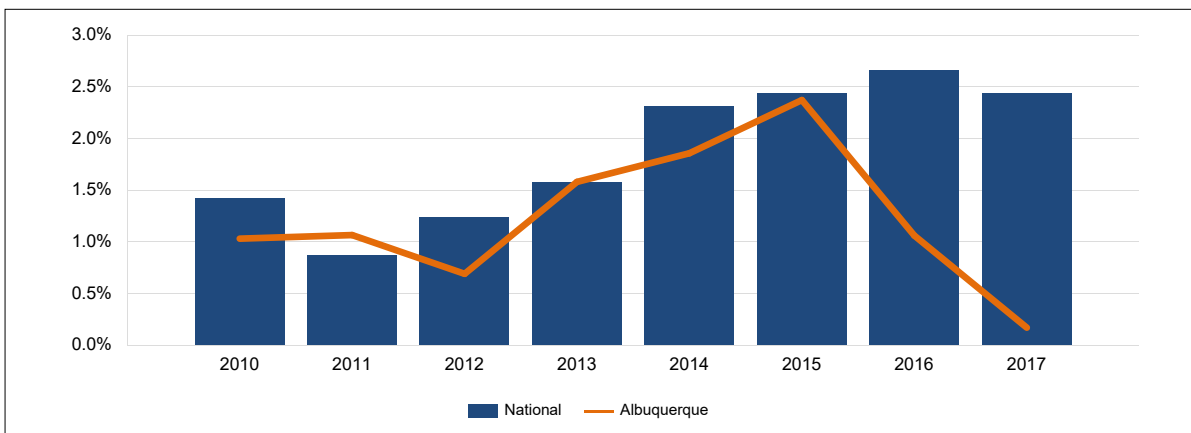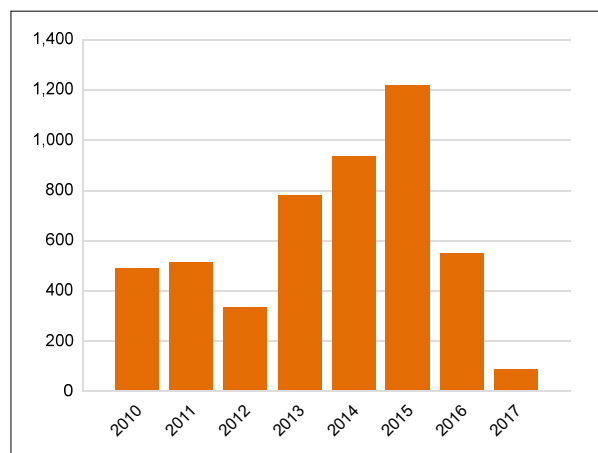

Source: YardiMatrix

Development Pipeline (as of December 2017)
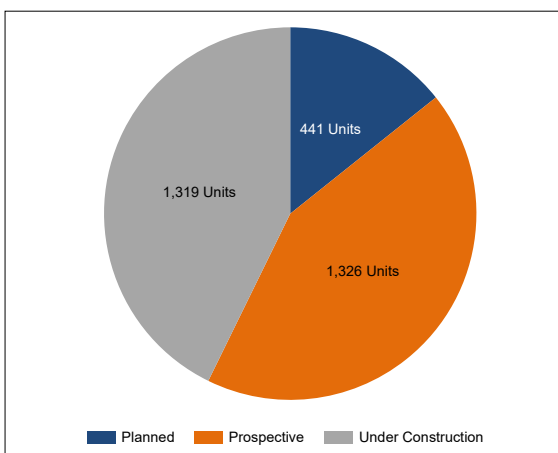
Source: YardiMatrix

**Albuquerque Completions** (as of December 2017)

Source: YardiMatrix

Transactions

- Only 13 multifamily properties changed hands last year, for an approximate value of $218 million. Investor appetite for Albuquerque assets was low throughout the entire cycle. The city's weak population growth, combined with a very limited inventory, has contributed to the lack of investor interest.

- The average price per unit in 2017 was $73,792, well under the 2014 cycle high of $126,276 and far behind last year's $137,967 U.S. average. Most of the properties trading last year are in the Renter-by-Necessity segment, revealing that value-add plans continue to drive the market as completions almost drew to a halt.

- Submarkets in the urban core and east of downtown attracted the most capital, with activity concentrated in La Cuesta, Balloon Fiesta Park–East and Eastside. The largest transaction of 2017 was California-based Gelt's purchase of the 472-unit Mountain Run from Chartwell Capital Partners for $50.6 million, or $107,277 per unit.

Albuquerque Sales Volume and Number of Properties Sold (as of December 2017)
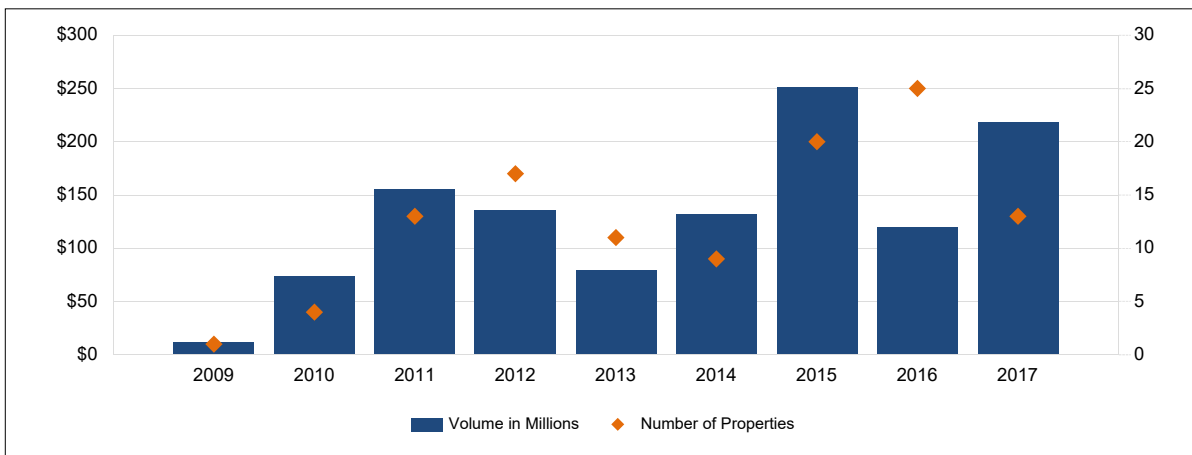
Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
La Cuesta	59
Balloon Fiesta Park–East	56
Eastside	51
Balloon Fiesta Park–West	32
Vista Encantada	15
Uptown	6

Source: YardiMatrix

[1] From January 2017 to December 2017

Albuquerque vs. National Sales Price per Unit
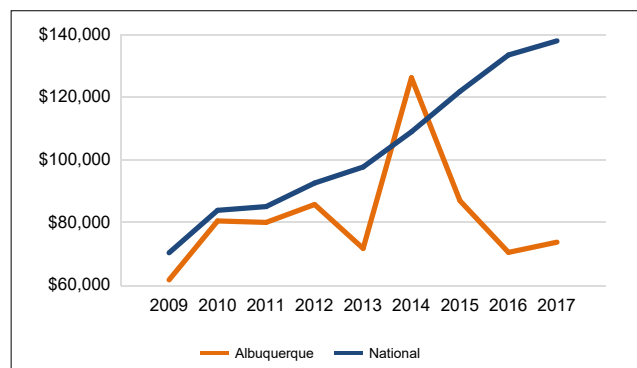
Source: YardiMatrix

Read All About It!

Texas Investor
Buys Albuquerque Community

Facebook to Add 1.8 MSF
To Los Lunas Data Center
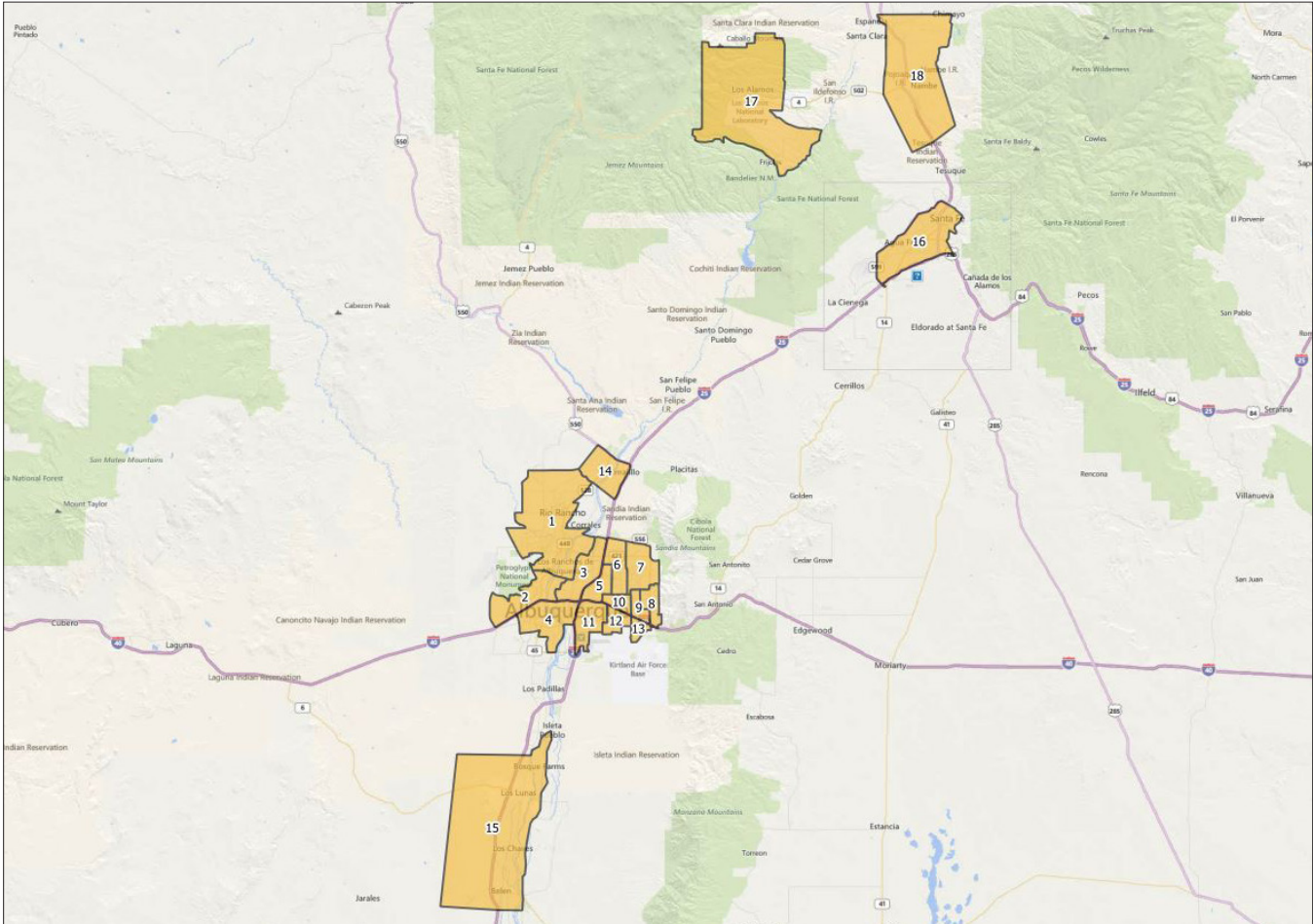
Capital One Provides $25M
For Albuquerque Property

New Fairfield Inn & Suites
Opens in ABQ

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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.