



Yardi® Matrix

Quirky Albuquerque

Multifamily Report Summer 2018

Home Values Hit Cycle Peak

Investor Interest Remains Low

Job Growth Lags National Average

Market Analysis

Summer 2018

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Duke City Seeks Solid Ground

Underperforming against the national average, Albuquerque's multifamily market continues to be one of the least dynamic in the country. The slow population growth, scarcity of new inventory and modest employment growth are among the reasons why activity in the metro is sluggish. However, the spillover effect is driving some growth in the southern and central submarkets, where several large investments are underway.

Job gains have been concentrated in the professional and business services and mining, logging and construction sectors. One Central—one of the largest public-private investments underway in downtown Duke City—is starting to materialize. The metro's new rapid transit system, which runs down the iconic Route 66 corridor, is expected to be in full service this year, which is likely to spur additional development. Los Lunas is another sought-after submarket, since Facebook began work on its \$28 billion data center. Here, a 1,420-acre rail-served industrial park is also attracting manufacturing and distribution companies.

Following 2015's cycle high of 1,223 units, deliveries have decelerated quickly. As of May, 1,122 units were under construction, but Yardi Matrix expects fewer than 700 of them to come online by year's end. Due to the shortage of new supply, we expect rents to rise 2.7% in 2018.

Recent Albuquerque Transactions

Diamond Mesa



City: Albuquerque, N.M.
Buyer: CFH Investment Partners
Purchase Price: \$58 MM
Price per Unit: \$127,692

Mountain Run



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

Olympus Solaire



City: Albuquerque, N.M.
Buyer: Olympus Property
Purchase Price: \$28 MM
Price per Unit: \$114,415

Monterra

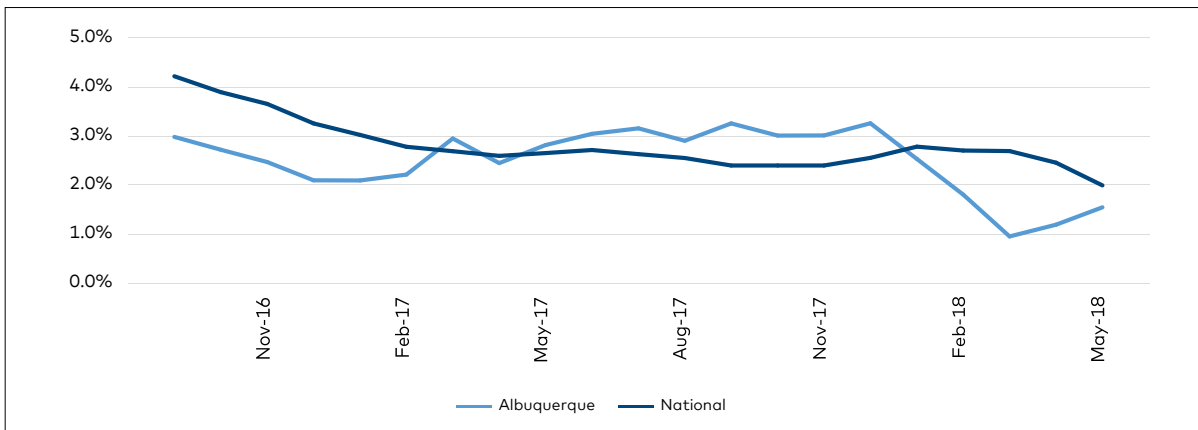


City: Albuquerque, N.M.
Buyer: Vukota Capital Management
Purchase Price: \$25 MM
Price per Unit: \$79,060

Rent Trends

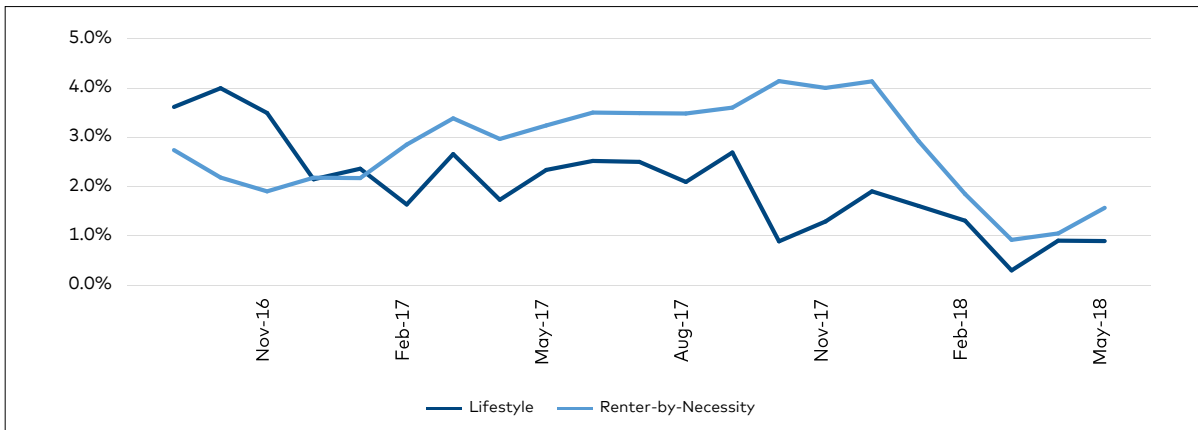
- Rents in Albuquerque were up 1.6% in the year ending in May, 40 basis points below the national growth rate. The metro's monthly rent stood at \$853, about \$530 below the national figure. The metro is adding new supply at a slow pace, keeping rent growth positive. Yardi Matrix expects rents to rise by 2.7% in 2018.
- Rent growth was led by the working-class Renter-by-Necessity segment, which increased by 1.6% to \$776 in the year ending in May. Lifestyle rents grew by only 0.9% to \$1,015. With most of the projects underway geared toward low-income renters, the gap between RBN and Lifestyle rents is likely to contract this year. Young professionals and Baby Boomers looking to downsize are keeping demand fairly solid.
- Although rents in the Los Alamos submarket grew by 9.4% to \$973 year-over-year through May, Los Lunas (\$1,129), Midtown/University (\$1,129) and Santa Fe (\$1,066) are still the most sought-after areas, stimulated by large projects that are expected to spur job growth in the region, including Facebook's much-anticipated data center and RIO Real Estate Investment Opportunities' rail-served industrial park. Low wages continue to put pressure on most renters, although rents in New Mexico are still more affordable than in neighboring states.

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)

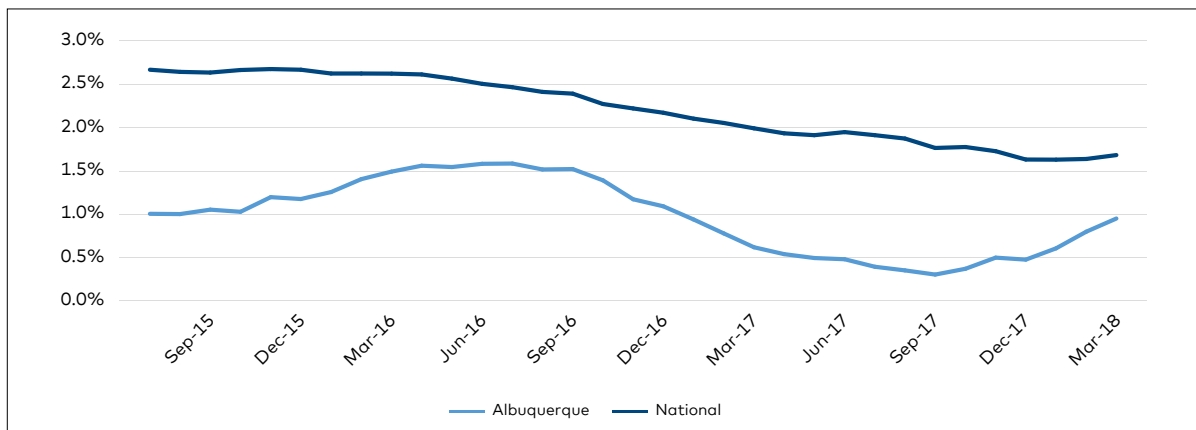


Source: YardiMatrix

Economic Snapshot

- Albuquerque added 5,900 jobs in the 12 months ending in March, a 1.0% appreciation, well behind the 1.7% national growth rate. Employment in the metro has been decelerating since July 2016.
- Professional and business services led growth with the addition of 2,600 jobs year-over-year through March. According to a 2018 Livability ranking based on data from the Bureau of Labor Statistics, Albuquerque is one of the best cities for science, technology, engineering and mathematics (STEM) jobs. Kirtland Air Force Base even used a \$45,000 grant to open a STEM Center of Excellence for children. Mining, logging and construction also added 1,600 positions. Local authorities broke ground on a \$6 million investment to overhaul the intersection between Central and Unser streets, where a developer is planning a 6-acre mixed-use project. The One Central entertainment hub—a \$35 million public-private partnership—is also starting to take shape. The manufacturing sector is likely to perform well in 2018, after a Caterpillar equipment supplier began work on a 200,000-square-foot facility.
- The beginning of this year kicked off with several large office projects. Enterprise Builders began work on Nusenda Credit Union’s new administrative offices in northeast Albuquerque. The 60,000-square-foot development is expected to be completed by the end of 2019.

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	%
60	Professional and Business Services	67	14.7%	2,600	4.1%
15	Mining, Logging and Construction	27	5.9%	1,600	6.4%
55	Financial Activities	22	4.8%	800	3.8%
70	Leisure and Hospitality	53	11.6%	700	1.3%
90	Government	100	21.9%	600	0.6%
80	Other Services	15	3.3%	200	1.4%
30	Manufacturing	17	3.7%	200	1.2%
50	Information	8	1.8%	-	0.0%
40	Trade, Transportation and Utilities	72	15.8%	-100	-0.1%
65	Education and Health Services	75	16.4%	-700	-0.9%

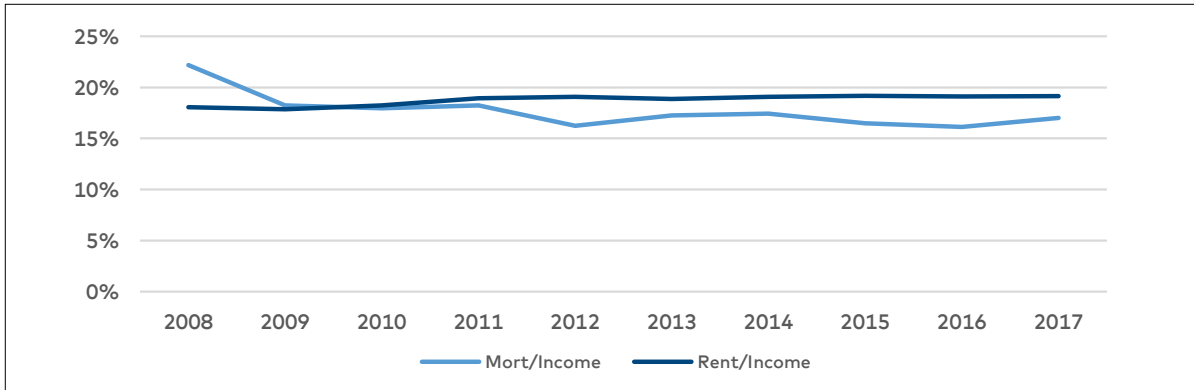
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

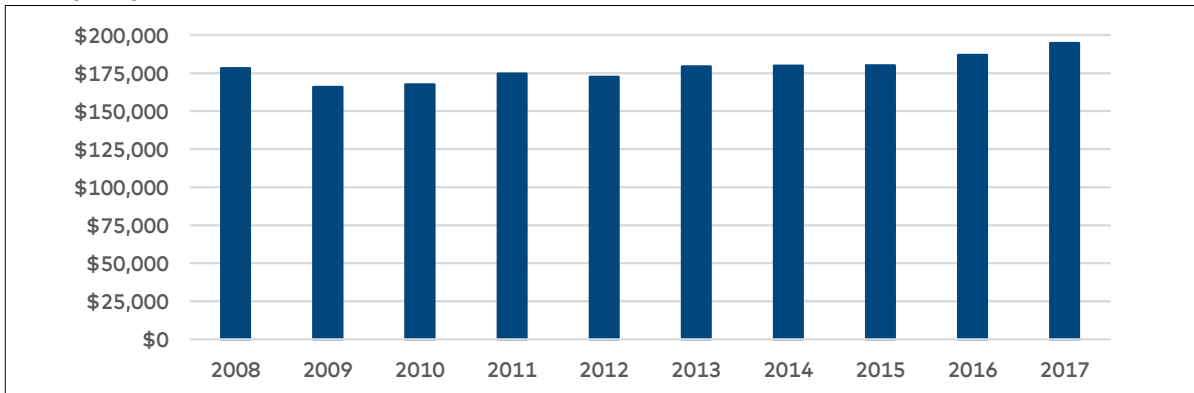
- The reduced stock of available units has pushed the median home value to a new cycle peak of \$194,810, up 13% from the 2012 trough. However, Albuquerque continues to be a relatively affordable metro, with the average mortgage payment accounting for 19% of the area's median income. At \$853, the average rent equates to 17%.
- Because of strict local building regulations and a limited amount of available land, Albuquerque ranked 22 out of the 50 metro areas where it is hardest to add much-needed new apartments, according to Hoyt Advisory Services research.

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 grew by almost 4,000 residents last year, a 0.4% uptick, trailing the national growth by 30 basis points.
- The metro gained roughly 21,000 residents between 2010 and 2017.

Albuquerque vs. National Population

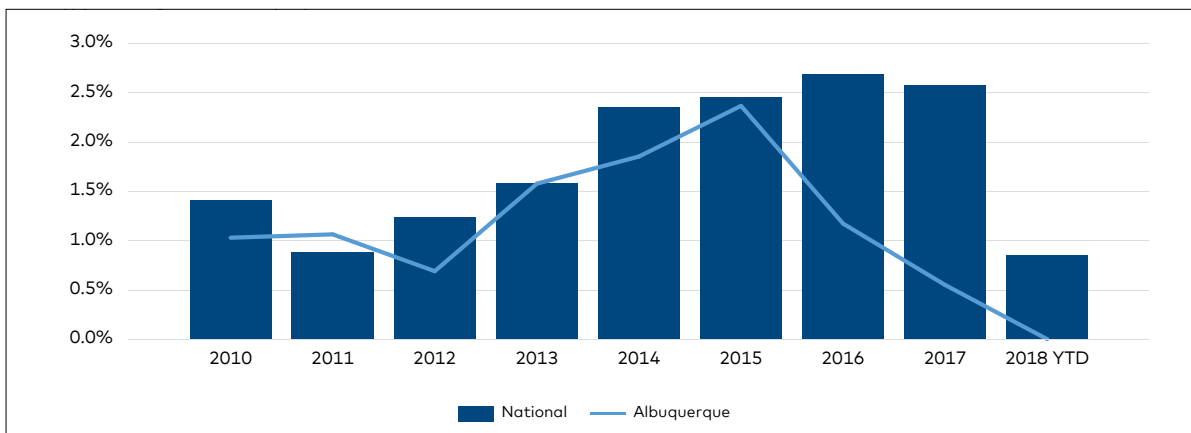
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Albuquerque Metro	902,083	902,069	903,489	906,877	910,726

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

Supply

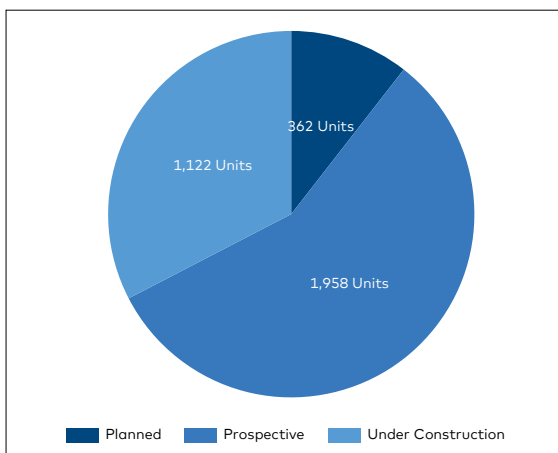
- Inventory growth continues to lag behind national levels, with no significant deliveries so far this year. This follows last year's cycle low, when only 289 units came online. The figure represents 0.6% of the metro's total stock, severely trailing the 2.6% national rate. Furthermore, the slow population growth has led to a significant drop in occupancy—to 93.8% as of April—a trend that is likely to continue. Still, nearly 700 units are expected to be completed this year, according to Yardi Matrix data.
- The development pipeline remains restricted. Roughly 1,100 units were underway in the metro as of May, with 2,320 units in the planning and permitting stages. Almost 60% of the projects under construction are geared toward low-income renters.
- Core areas have, by far, the highest number of projects in the works: Downtown/South Valley (413 units), Balloon Fiesta Park–East (235 units) and North Valley (226 units). Downtown is also home to the largest project under construction: Village at Avalon, a 240-unit affordable community built by GSL Properties. Greater Albuquerque Housing Partnership's Sterling Downtown is set to add another 107 units to the metro's affordable housing stock this year.

Albuquerque vs. National Completions as a Percentage of Total Stock (as of May 2018)



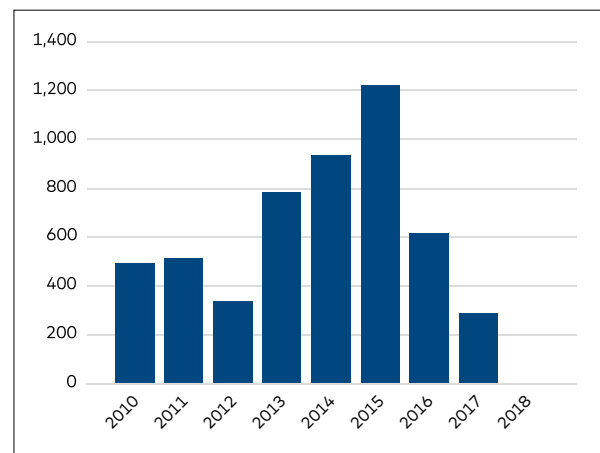
Source: YardiMatrix

Development Pipeline (as of May 2018)



Source: YardiMatrix

Albuquerque Completions (as of May 2018)

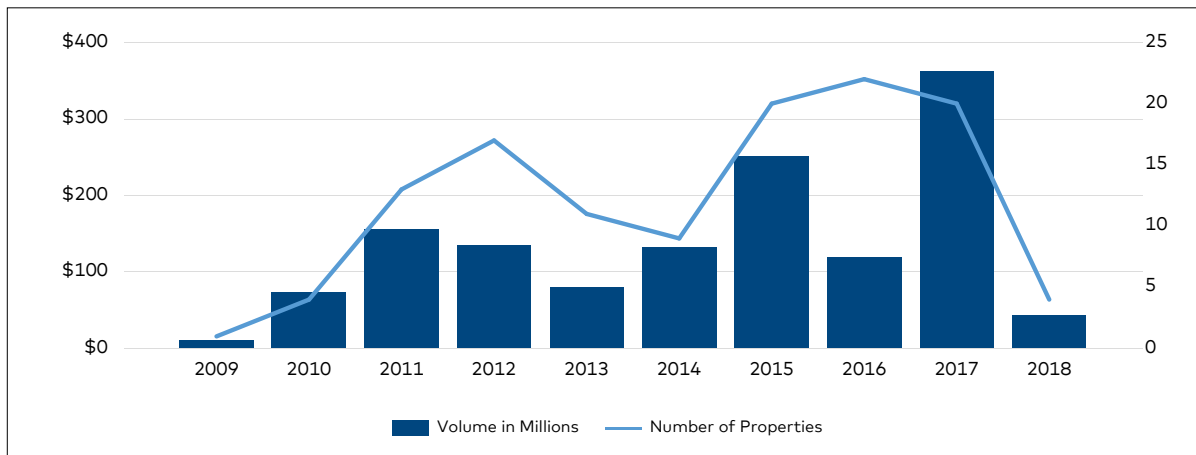


Source: YardiMatrix

Transactions

- About \$43 million in multifamily sales were completed in 2018 through April. Although investor activity in Albuquerque started the year slowly, last year's transaction volume of \$363 million marked a cycle high. The city's limited inventory and tepid population growth have both contributed to the lack of investor interest. Per-unit prices fell to \$78,993 this year, almost half the U.S. average. All assets that traded in 2018 were in the Renter-by-Necessity segment, further emphasizing the investors' appetite for value-add opportunities.
- Urban core submarkets such as Eastside (\$72 million), Downtown/South Valley (\$58 million) and Balloon Fiesta Park–West (\$47 million) attracted the most capital. Oksenholt Asset Management was one of the most active buyers in the metro, having purchased three assets in the 12 months ending in April, at an average price per unit of roughly \$52,500.

Albuquerque Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

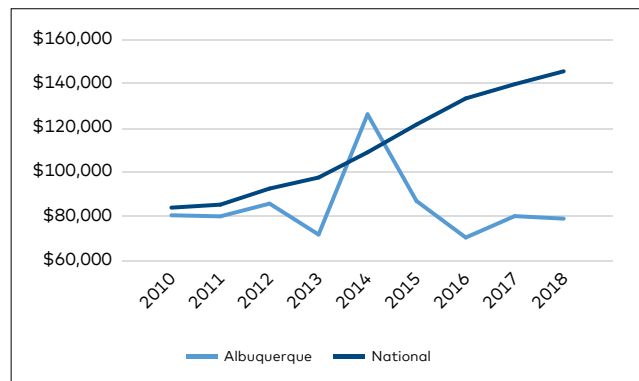
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Eastside	72
Downtown/South Valley	58
Balloon Fiesta Park–West	47
Paradise Hills	28
Balloon Fiesta Park–East	28
Canada Village	22

Source: YardiMatrix

¹ From May 2017 to April 2018

Albuquerque vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



NorthMarq Multifamily Brokers 120-Unit NM Sale

The community represents the buyer's first acquisition in Albuquerque. The 10-building asset traded for \$7.5 million, with Berkadia arranging the Freddie Mac acquisition financing.



Capital One Arranges \$11M Refi for NM Senior Housing

Wheatfields Senior Living Community in Clovis comprises 101 beds across five detached independent living cottages, as well as the assisted living building that was completed in 2011.



Another Affordable Property Opens In ABQ

Sterling Downtown is the first WELL-registered multifamily property in the Southwest. The property was designed to achieve LEED Platinum certification.



Affordable Community Opens Doors in South Valley

The Village at Avalon, containing 240 units, broke ground in early 2016. GSL Properties utilized nearly \$20 million in revenue bonds to finance construction.



AMG Realty Trades 512-Unit NM Property

The buyer funded the acquisition of the Class C community with a \$14.3 million Fannie Mae mortgage provided by Arbor Realty Trust.

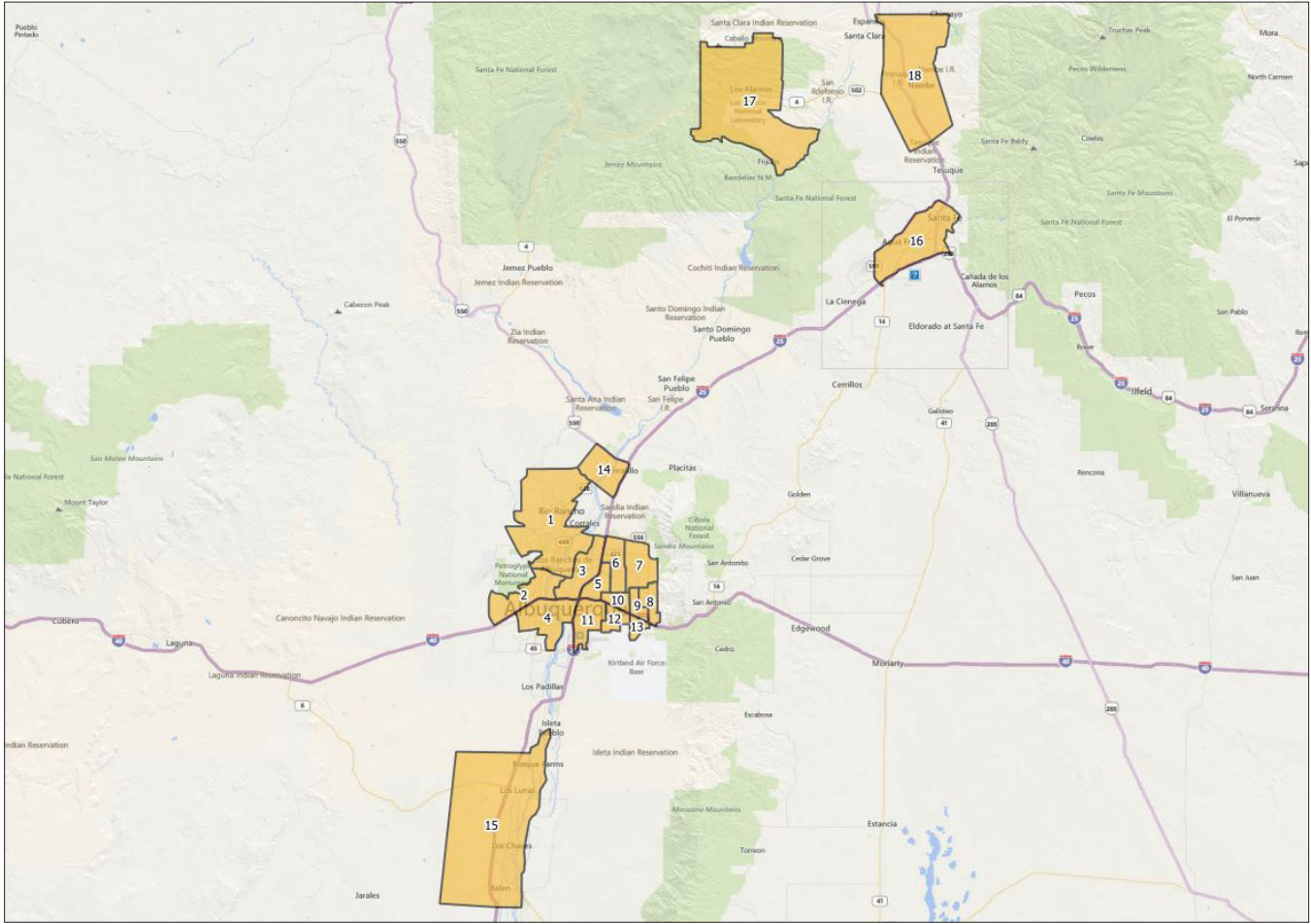


YES Housing Launches Affordable Development in ABQ

Plans for the mixed-use project—anticipated to open in 2020—call for 88 apartments and between 80,000 and 90,000 square feet of retail.

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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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President
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