



Yardi® Matrix

Albuquerque's Toeing The Line

Multifamily Report Fall 2018

Occupancy Remains Stable

Limited Supply Puts Upward Pressure on Rents

Professional, Business Services Sector Leads Job Gains

Market Analysis

Fall 2018

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Employment Regains Momentum

Duke City shows favorable multifamily fundamentals as once modest employment gains have significantly rebounded over the past year. Overall, rents rose 1.3% year-over-year through September to \$869, well below the national average of \$1,412. However, Albuquerque's relative affordability compared to nearby cities could prompt migration back into the state, as job creation continues at an above-trend rate.

Employment growth was up 1.5% year-over-year through July. The professional and business services sector led the way with the addition of 3,800 jobs, followed by construction and leisure and hospitality, each of which gained 1,300 jobs, a trend that will likely be maintained by Facebook's massive data center development in Los Lunas and Netflix's recent acquisition of ABQ studios. The entertainment production company is planning to invest \$1 billion at the facility over the next decade. A significant presence of the two tech giants may galvanize further growth.

The multifamily transaction volume hit \$242 million in 2018 through September. The bulk of the assets that changed hands was in lower-rated classes, pushing the per-unit price up by 3.3%, to \$82,272. With only 165 units delivered this year and roughly 900 underway, we expect rent growth to remain positive in 2018.

Recent Albuquerque Transactions

Allegro at Tanoan



City: Albuquerque, N.M.
Buyer: DiNapoli Capital Partners
Purchase Price: \$36 MM
Price per Unit: \$142,459

Wellington Place



City: Albuquerque, N.M.
Buyer: Comunidad Realty Partners
Purchase Price: \$29 MM
Price per Unit: \$103,014

The Enclave



City: Albuquerque, N.M.
Buyer: DiNapoli Capital Partners
Purchase Price: \$26 MM
Price per Unit: \$129,927

Mesa Verde

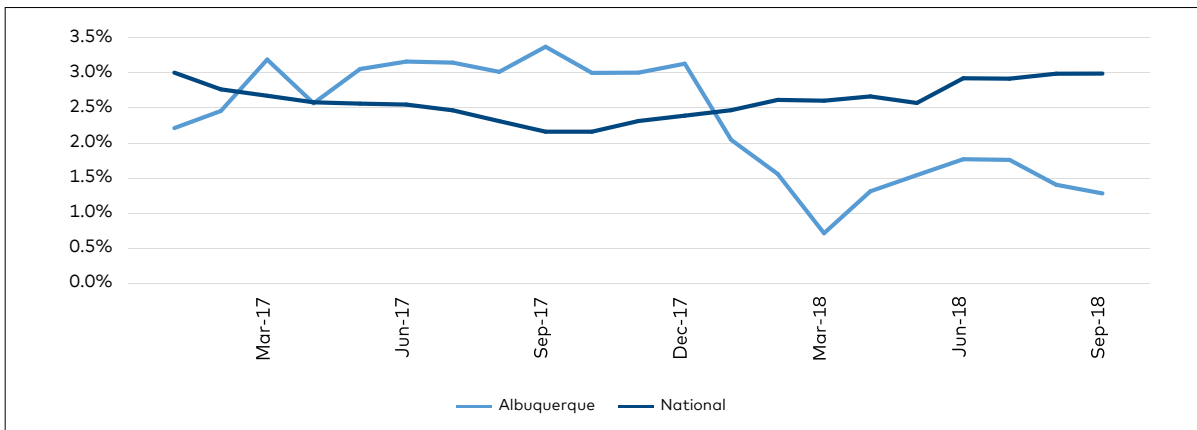


City: Albuquerque, N.M.
Buyer: ChadNic Properties
Purchase Price: \$21 MM
Price per Unit: \$86,694

Rent Trends

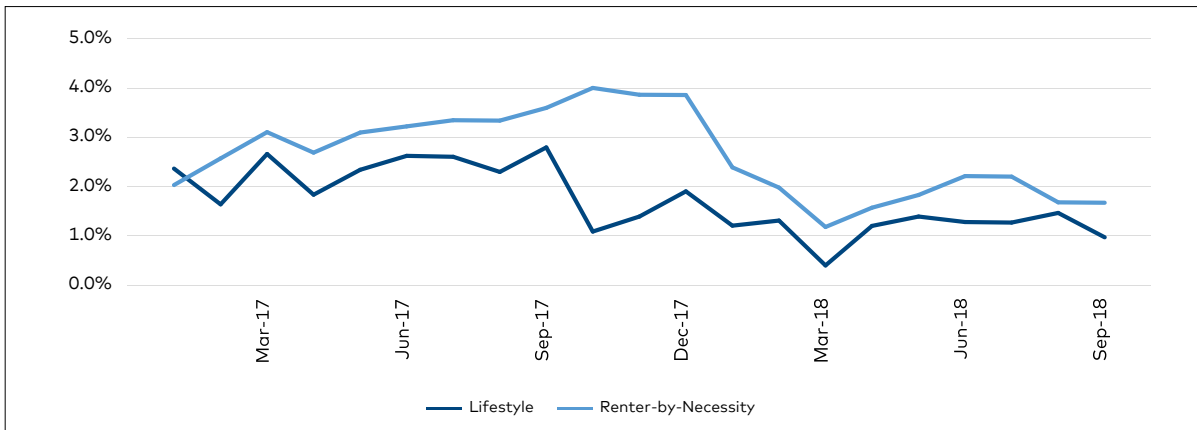
- Rents in Albuquerque softened in the past 12 months, rising 1.3% year-over-year through September, well behind the 3.0% national growth rate. The average overall rent stood at \$869, trailing the national average of \$1,412.
- Rents in the working-class Renter-by-Necessity segment led growth, up 1.7% year-over-year to \$790, while rates for Lifestyle assets rose 1.0%, to \$1,039. Demand for RBN assets remains higher, as deliveries, though heavily geared toward the segment as of September, did little to moderate the need for low-income housing. The current pipeline, comprising developments from both ends of the spectrum, will likely maintain the trend.
- The Los Lunas submarket (up 9.2% to \$1,133) had the highest rent uptick—thanks to Facebook’s data center campus—and shows no signs of softening, as no new developments were underway as of September, while Los Alamos rents rose at an accelerated rate (8.3% to \$1,006). The most affordable submarkets were Uptown (up 1.8% to \$626) and Vista Encantada (up 1.6% to \$686).
- Demand for housing is limited, but a small development pipeline has pushed occupancy in stabilized properties up by 10 basis points year-over-year, to 95.3% as of August.

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)

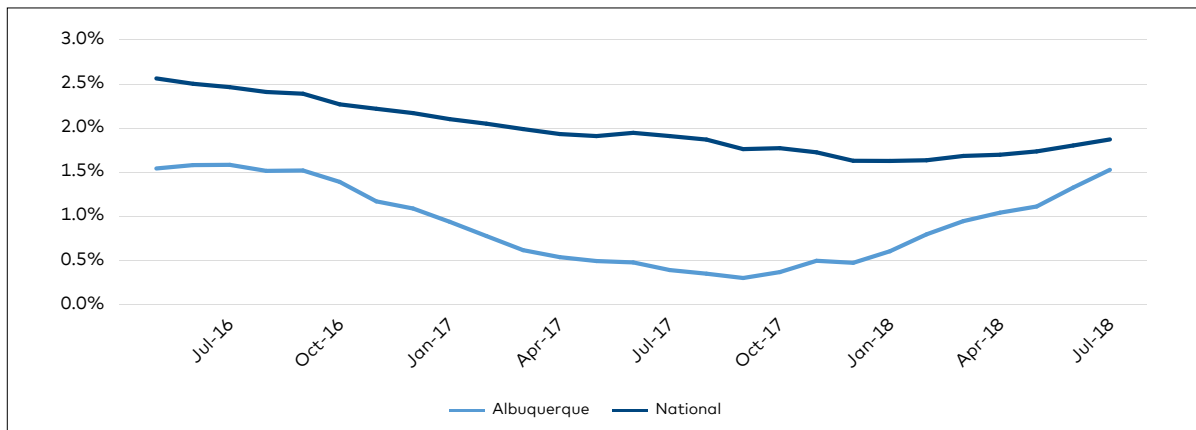


Source: YardiMatrix

Economic Snapshot

- Albuquerque added 9,600 jobs in the 12 months ending in July, an employment growth rate of 1.5% year-over-year, about 40 basis points below the national average. Since October 2017, employment in the metro has begun to pick up steam, albeit at a slow pace. However, the falling unemployment rate, down to 4.8% in July, also indicates that the local economy is slowly gaining momentum.
- Professional and business services led growth with the addition of 3,800 jobs. Mining, logging and construction gained 1,700 new positions in the 12 months ending in July. Both sectors are boosted by Facebook's data center in Los Lunas, where roughly 500 construction workers are onsite daily. Pattern Development's 2.2 GW Corona Wind Projects complex was approved and could generate an estimated \$3.8 billion economic impact, as well as hundreds of jobs during construction and about 100 permanent jobs once commercial operation begins in 2020. The office development pipeline has 130,000 square feet underway at Goodman Realty Group's Level 2 at Winrock Town Center in Uptown, further boosting improvement in the sector.
- Netflix's acquisition of the ABQ Studios will have further ripples in the metro's economy. The entertainment production company has already announced investments of as much as \$1 billion at the facility throughout the next decade.

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	70	15.2%	3,800	5.7%
70	Leisure and Hospitality	58	12.6%	1,700	3.0%
15	Mining, Logging and Construction	28	6.1%	1,700	6.4%
90	Government	96	20.8%	1,300	1.4%
55	Financial Activities	22	4.8%	700	3.3%
80	Other Services	16	3.5%	200	1.2%
65	Education and Health Services	74	16.1%	100	0.1%
30	Manufacturing	17	3.7%	100	0.6%
40	Trade, Transportation and Utilities	73	15.8%	-	0.0%
50	Information	8	1.7%	-	0.0%

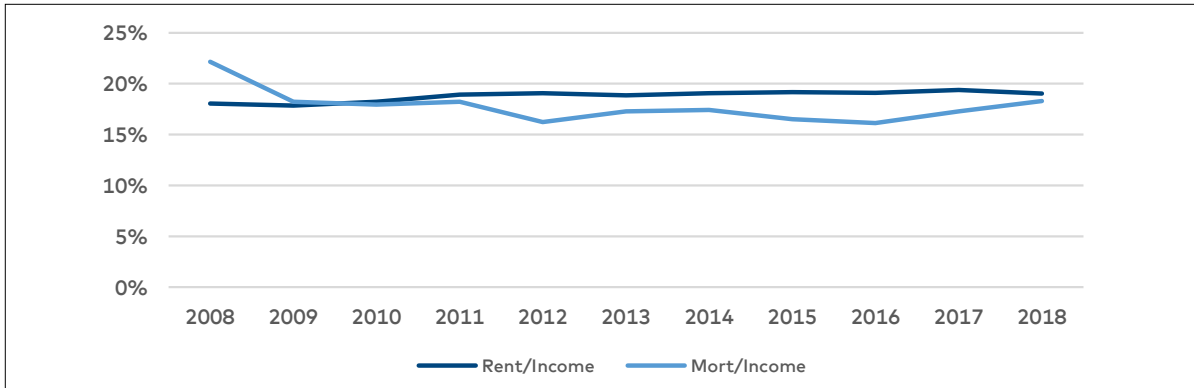
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

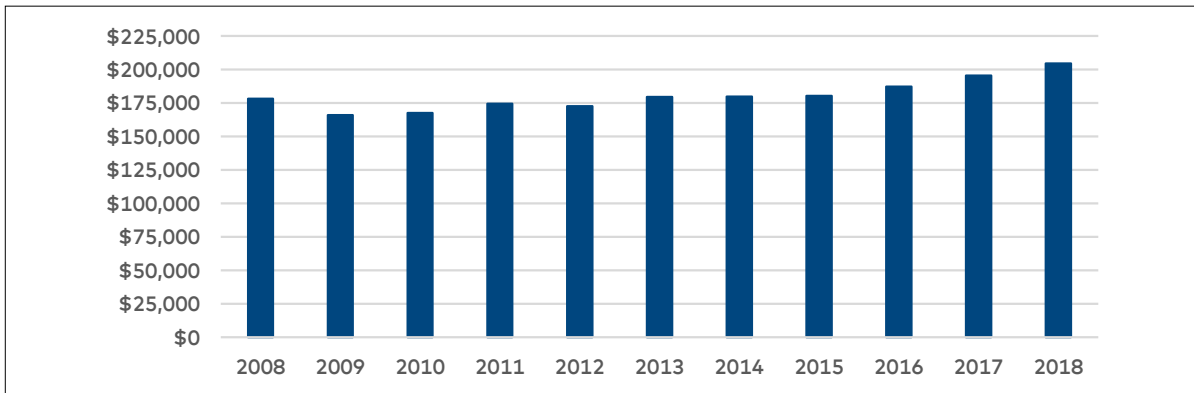
- The median home price continued to rise, up 4.7% year-over-year to \$204,531 in 2018, crossing the \$200,000 mark for the first time. The price is 23.3% higher than it was a decade ago, when the median was about \$27,000 lower than it is today. Owning remained slightly more affordable than renting, accounting for 18% of the area's median income, while rents comprised 19%.
- New tariffs and inflation have added to the rising costs in the home building industry, which may hinder consumer spending and impede housing affordability. For now, Albuquerque is still relatively affordable compared to nearby markets, which could prompt improvement as job growth continues.

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 2013 and 2017, Albuquerque gained more than 8,600 residents, up 1.0%, trailing the 3.0% U.S. average during the same period.
- In 2017, the metro grew by nearly 4,000 residents, a 0.4% increase.

Albuquerque vs. National Population

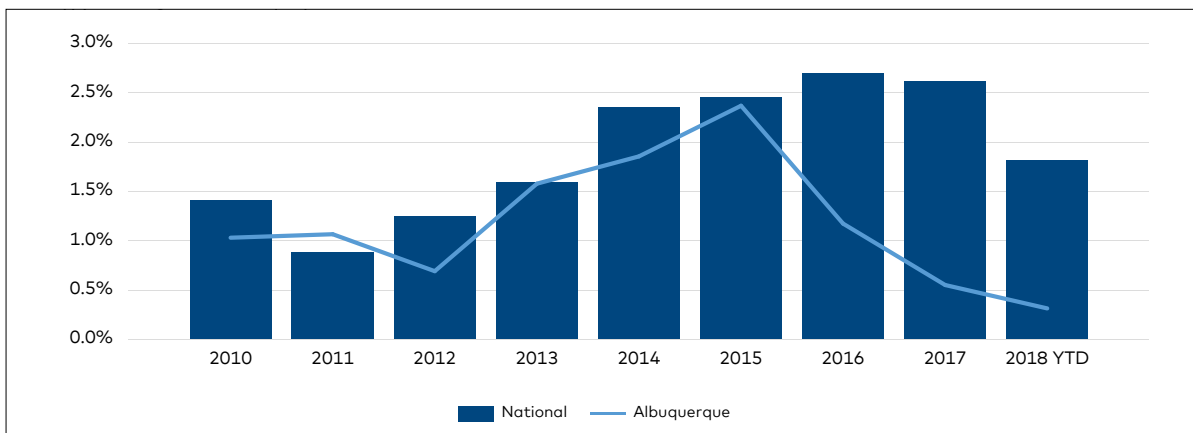
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Albuquerque Metro	902,083	902,069	903,489	906,877	910,726

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

Supply

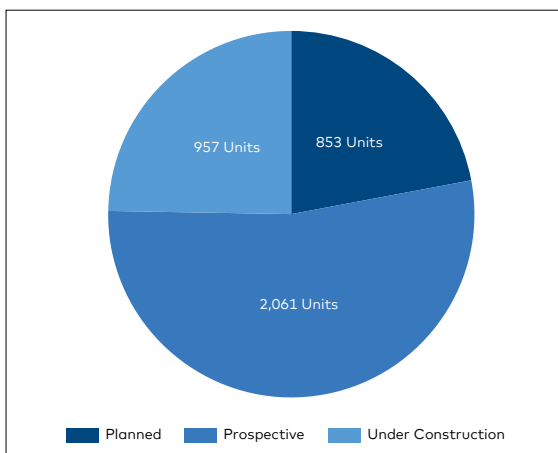
- Only two communities totaling 165 units came online in the metro in 2018 through September, 0.3% of total stock, heavily trailing the 1.8% national rate. Both properties are owned by nonprofit organizations and one is fully affordable. Slow population growth has kept demand levels at bay, leading to limited construction activity in metro Albuquerque throughout the second half of the cycle.
- Some 950 units were underway as of September, all with completion estimated for 2018. However, delays are likely to occur, pushing some completion dates into 2019. More than 2,900 units were in the planning and permitting stages.
- Development activity is concentrated in core areas: Downtown/South Valley is leading the way with more than 300 units under construction, followed by Balloon Fiesta Park–East (235 units), North Valley (226 units) and Balloon Fiesta Park–West (190 units). The largest development underway is Village at Avalon, a 12-building, 240-unit fully affordable community owned by GSL Properties. Spread across nearly 10 acres, the property is subject to a 43-year unsubordinated net ground lease held by Bernalillo County. Slated for completion in the fall of 2018, the property was 95% leased as of August.

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



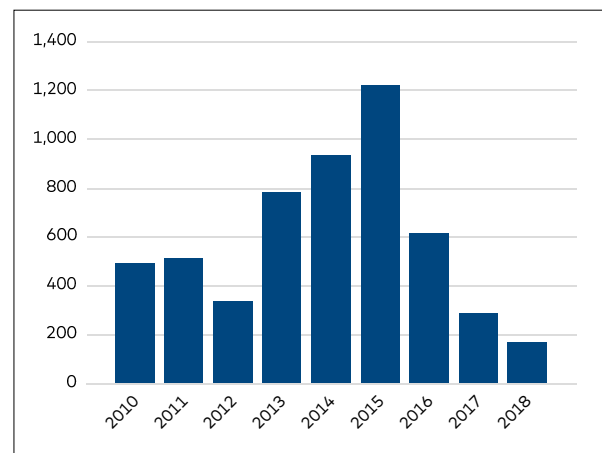
Source: YardiMatrix

Development Pipeline (as of September 2018)



Source: YardiMatrix

Albuquerque Completions (as of September 2018)

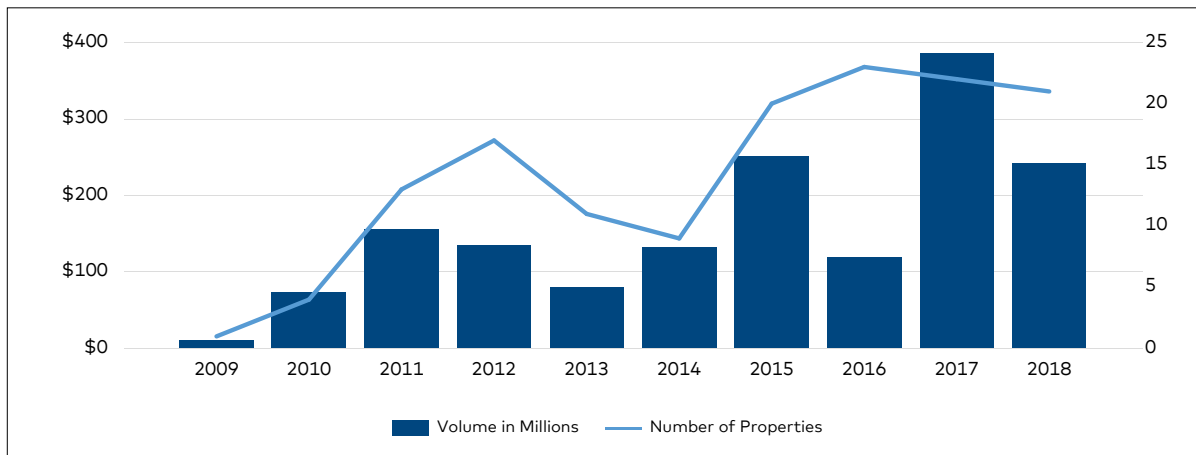


Source: YardiMatrix

Transactions

- Transaction activity was moderate in Albuquerque this year through September, when about \$242 million in multifamily assets changed hands. Three quarters of the properties were in the Renter-by-Necessity segment.
- Acquisition yields in Albuquerque have compressed, most recently in the 6.3% to 7.3% range for value-add Class A/B properties. That's still a significant rate and enough to entice investors. Per-unit prices hit new highs following a 3.3% rise in 2018, to \$82,272. That's about half of the U.S. rate of \$151,135.
- Investor activity is geared toward core regions, with the top four submarkets totaling more than \$262 million in the last 12 months. DiNapoli Capital Partners was the area's most active investor, with \$62 million spent on two assets, both in the Eastside submarket.

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



Source: YardiMatrix

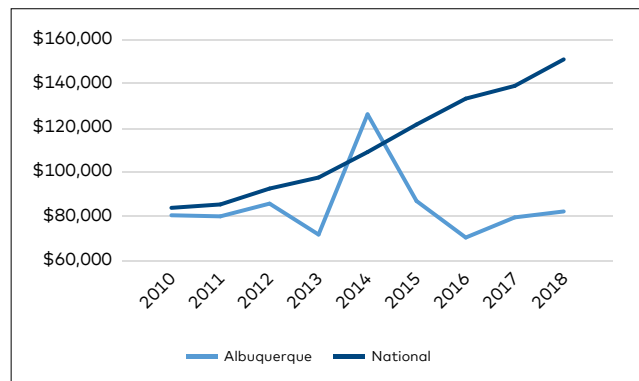
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Eastside	83
Balloon Fiesta Park-East	61
Balloon Fiesta Park-West	61
Downtown/South Valley	58
Uptown	19
Midtown/University	16
Vista Encantada	14
North Valley	9

Source: YardiMatrix

¹ From October 2017 to September 2018

Albuquerque vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:



Albuquerque Housing For Homeless Opens Doors

The developer broke ground on the new 52-unit building at the city's largest shelter for homeless people, Joy Junction, in May 2017.



Project for Homeless Community Proposed North of Joy Junction

A local business alliance plans to construct a campus-style property west of the city, with space for approximately 170 people.



NM Development Lands Tax Relief

The Albuquerque City Council approved the metropolitan redevelopment bond to support construction of the 226-unit Broadstone Northpoint Apartments, which broke ground in early 2017.



Titan Development Proposes ABQ Community

The company's plans call for the addition of 102 market-rate apartments, adding to the Midtown/University submarket's existing supply of 3,700 units.

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Top 10 Multifamily Loans in Albuquerque



By Roxana Baiceanu

data by
Yardi® Matrix

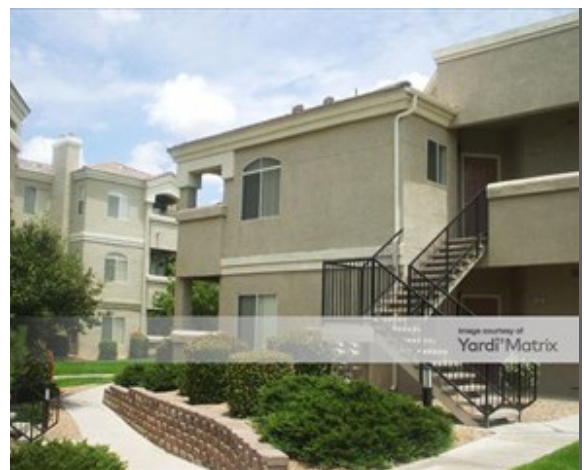
Heightened multifamily sales activity in the metro during the first three quarters has led to a boost in lending, with several investors securing Fannie Mae and Freddie Mac financing to cover their acquisitions.

Although Albuquerque’s multifamily market continues to underperform against the national average, due to slow population growth and limited inventory, last year marked a cycle high in transactions, with almost \$400 million in sales. The momentum seems to be continuing this year, as more than \$240 million in assets had traded as of September. After a slow start to the year, the second quarter attracted more capital to Albuquerque’s multifamily market. By the end of September, 22 communities changed hands in the metro, nearly matching the number of sales closed throughout the entirety of 2017.

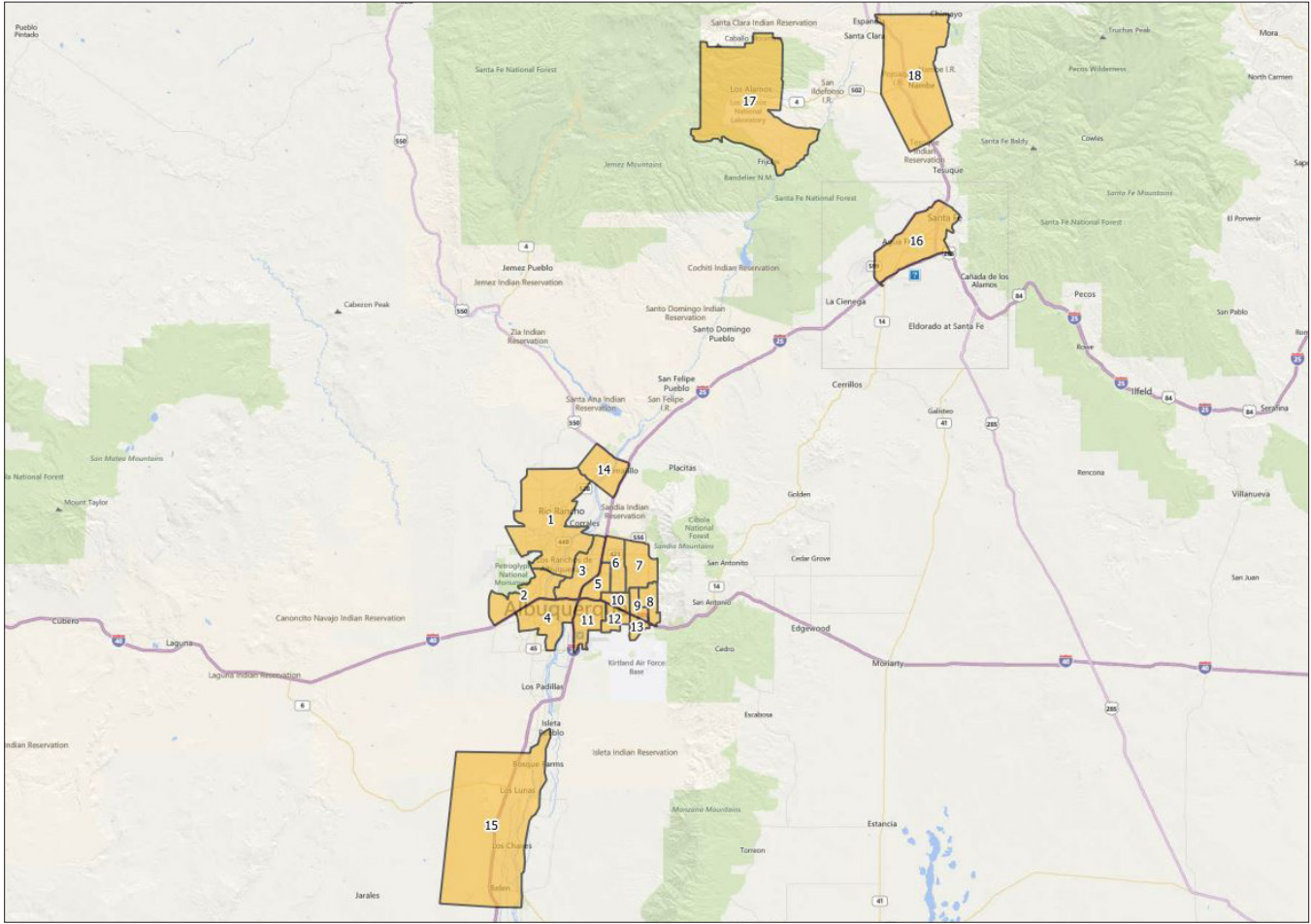
Property Name	No Units	Owner	Lender	Loan Amount (MM)
Arterra	294	Northland Investment Corp.	Freddie Mac	36.3
Allegro at Tanoan	250	DiNapoli Capital Partners	Fannie Mae	26.7
Wellington Place	280	Comunidad Realty Partners	Fannie Mae	21.6
Mission Hill	448	Sonoma Imperial	Fannie Mae	21.1
The Enclave	200	DiNapoli Capital Partners	Fannie Mae	19.5
Mesa Verde	243	ChadNic Properties	Benefit Street Partners	15.8
Ventana Ranch	288	GSL Properties	Fannie Mae	14.4
Desert Oasis	512	Mihail Koulakis	Fannie Mae	14.2
Cinnamon Tree	398	Varia US Properties	M&T Bank	14
Indigo Park	216	Inco Real Estate	Fannie Mae	13.3

Arterra

Arterra is a 194-unit luxury property located at 8300 Wyoming Blvd. N.E. Northland Investment Corp. acquired it in June from Abacus Capital Group in a transaction partially covered by a \$36.3 million Freddie Mac loan. CBRE Capital Markets originated the financing, which features an amortization schedule of 12 years. The community encompasses one-, two- and three-bedroom apartments that can be rented for a monthly average of \$1,200.



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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Mark Fogelman
President
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