

Yardi® Matrix

# Albuquerque's Good Year

Multifamily Report Winter 2019

Job Growth Accelerates

Stock Expansion Picks Up

Rent Surge Matches US Average



## Market Analysis

Winter 2019

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## Employment Growth Brings Second Wind

Supported by recovering employment velocity, Albuquerque's multifamily market had a relatively strong second half of 2018. The metro's affordability—coupled with recent large investments in the area—has brought job growth in line with the U.S. average for the first time this cycle, boosting rental demand along the way.

Professional and business services led employment growth (4,900 jobs), followed by leisure and hospitality (2,700), government (1,500) and construction (1,000). Intel, one of the state's largest technology employers, announced it is hiring again. The company decided to move the development of a new facility to its Rio Rancho plant. Giants Netflix and Facebook are also bringing growth and pushing the metro's economy to a healthier state. The Horne Cos. began work on Sunport South Business Park, a future hub for e-commerce, warehousing, distribution and manufacturing.

Fueled by low levels of new stock and rising demand coming from traditionally high-income employment sectors, both home prices and rents are improving across the metro. As of December, 550 units were under construction, with roughly 270 expected to come online this year. Considering the sluggish pace of completions and improving economy, we expect Albuquerque rents to advance 2.8% in 2019.

## Recent Albuquerque Transactions

Ventana Canyon



City: Albuquerque, N.M.  
Buyer: Thayer Manca Residential  
Purchase Price: \$34 MM  
Price per Unit: \$128,283

Canyon Village



City: Los Alamos, N.M.  
Buyer: Peak Capital Partners  
Purchase Price: \$15 MM  
Price per Unit: \$124,100

Sage Canyon



City: Albuquerque, N.M.  
Buyer: Cooper Street Capital  
Purchase Price: \$9 MM  
Price per Unit: \$84,317

The Village at Tierra Antigua

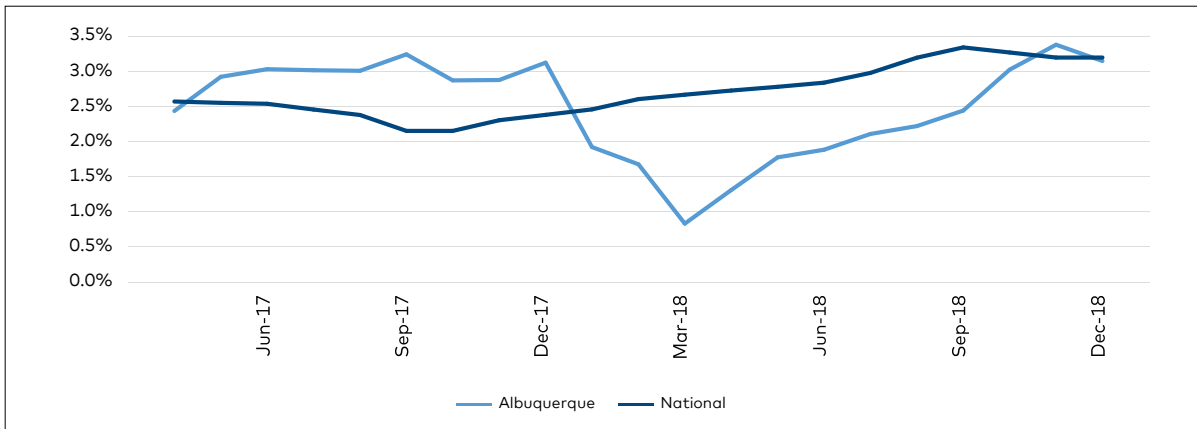


City: Albuquerque, N.M.  
Buyer: PASSCO Real Estate  
Purchase Price: \$17 MM  
Price per Unit: \$111,316

## Rent Trends

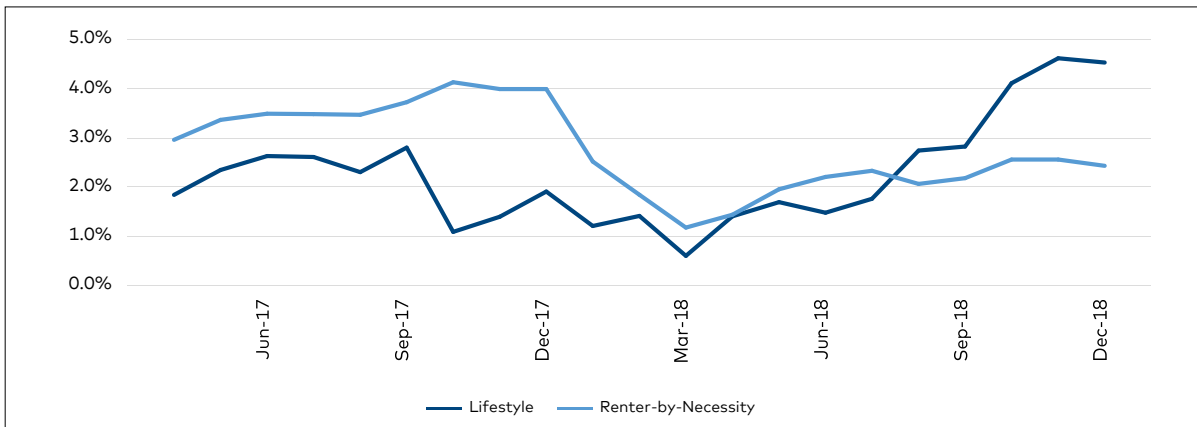
- Rent growth in Albuquerque accelerated to 3.2% in 2018, on par with the U.S. rate as of December. At \$884, the average rent was well behind the \$1,419 U.S. figure. Following a slow start to the year, rents began to pick up in April, with much of the strength coming from the metro's improving job market.
- Rents in Lifestyle properties were up 4.5% year-over-year, to \$1,062. Rates for working-class Renter-by-Necessity assets rose to \$801, a 2.4% uptick. Although most communities coming online during this cycle cater to high-income residents, rents in Albuquerque remain much more affordable than in other metros in the region, including Phoenix (\$1,105) and Denver (\$1,522).
- Rents in Santa Fe (7.8%), Vista Encantada (6.0%) and Paradise Hills (5.8%) led growth. With an average rent of \$1,158 as of December, Santa Fe was also the metro's most expensive submarket, followed by Midtown/University (\$1,154) and Los Lunas (\$1,029), the home of Facebook's massive data center project.
- The small development pipeline has pushed occupancy in stabilized properties to 95.0% as of November, up roughly 50 basis points over 12 months and closer to the national rate. Considering the tepid development pace and accelerating job growth, we expect Albuquerque rents to rise 2.8% in 2019.

**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)

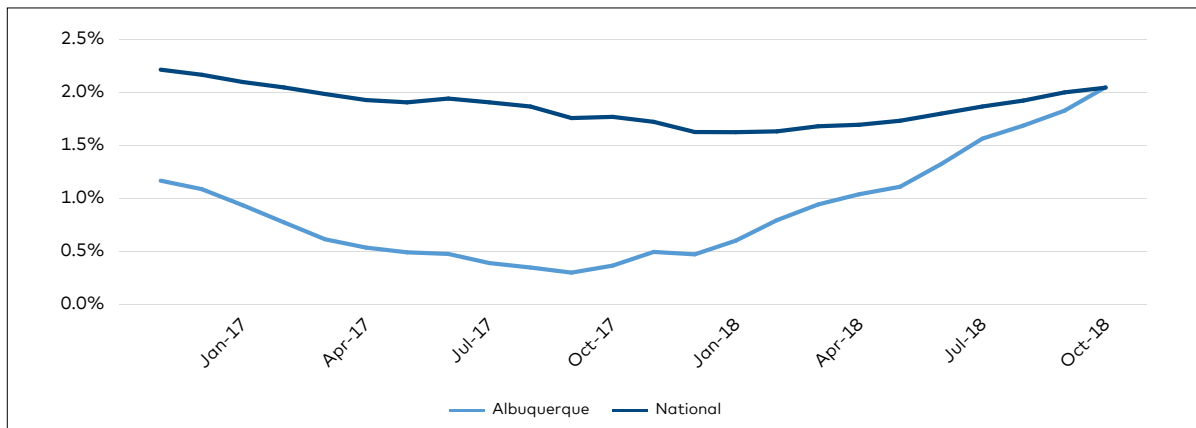


Source: YardiMatrix

## Economic Snapshot

- Metro Albuquerque added 11,800 jobs in the 12 months ending in October 2018 for a 2.1% expansion, on par with the U.S. average. Employment growth in the metro has been steadily accelerating since October 2017, closing the consistent 150-basis-point spread recorded less than two years ago.
- With 4,900 jobs added, professional and business services accounted for nearly half of the positions created in Albuquerque. Leisure and hospitality (2,700), government (1,500) and construction (1,000) followed. The \$1 billion Facebook data center in Los Lunas is expected to have a multiplier effect of new jobs across several sectors, particularly in the southern part of the metro. The Horne Cos. broke ground on Sunport South Business Park, a hub stretching over 6 million square feet just off Interstate 25. Also underway are Max Q, a 900,000-square-foot mixed-use development on Kirtland Air Force Base, and the 80-acre Aviation Center of Excellence.
- Tourism has also provided a strong boost to the local economy during the second half of this cycle. Employment in the industry has been rising fast, with The New Mexico True campaign increasing to a \$10.2 million budget from its initial \$2.1 million seven years ago. In 2019, the Albuquerque Convention Center is set to host the National Senior Games, the largest multi-sport event for seniors in the world, which is likely to generate additional growth in the sector.

### 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	71	15.2%	4,900	7.4%
70	Leisure and Hospitality	56	12.0%	2,700	5.0%
90	Government	101	21.6%	1,500	1.5%
15	Mining, Logging and Construction	28	6.0%	1,000	3.7%
40	Trade, Transportation and Utilities	74	15.8%	700	1.0%
30	Manufacturing	17	3.6%	600	3.7%
80	Other Services	15	3.2%	300	2.0%
55	Financial Activities	22	4.7%	300	1.4%
50	Information	8	1.7%	100	1.2%
65	Education and Health Services	76	16.2%	-300	-0.4%

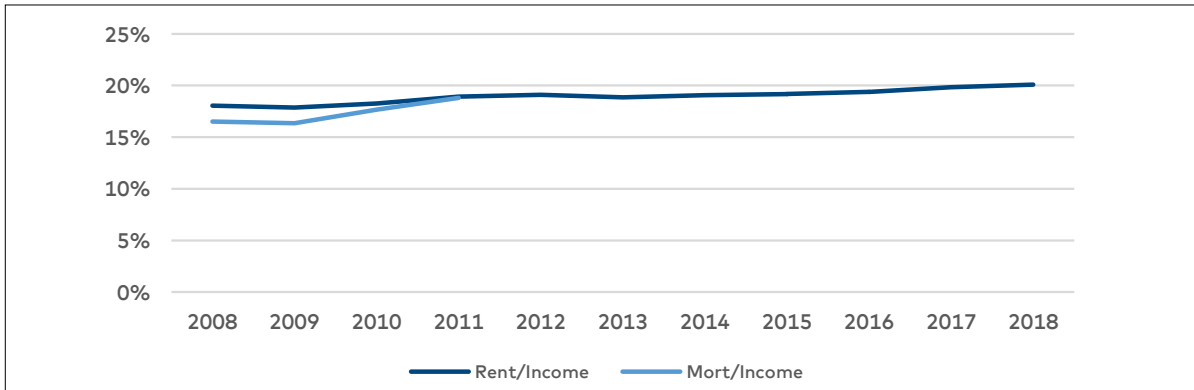
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

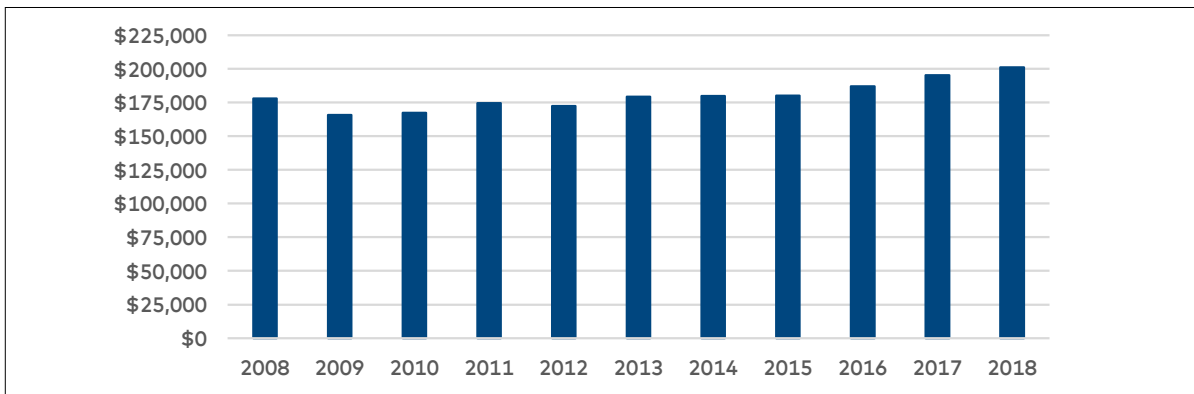
- The median home value in Albuquerque continued to rise in 2018, to a cycle peak of \$201,302. Renting was slightly more expensive than owning, accounting for 20% of the area's median income, while homeownership equated to 19%.
- Low inventory coupled with rising demand is fueling home price increases. According to a 2018 University of New Mexico report, 53% of Santa Fe's workforce lived outside of the city due to high housing costs. With average rents at \$1,158 as of December, Santa Fe was the most expensive submarket of the metro.

### 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 added more than 3,800 residents in 2017, a 0.4% uptick, 30 basis points below the national growth rate.
- During the past five years, the metro's population increased by roughly 8,600 residents.

### Albuquerque vs. National Population

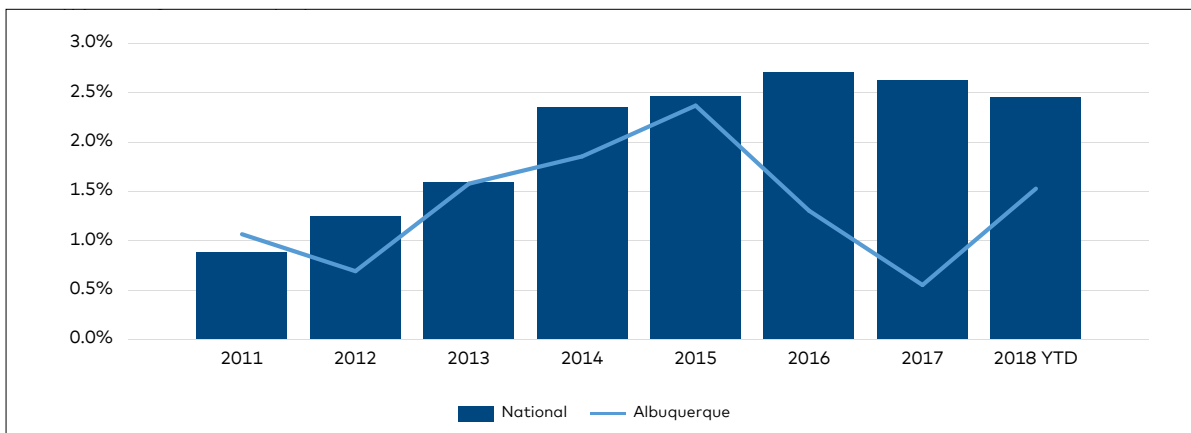
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Albuquerque Metro	902,083	902,069	903,489	906,877	910,726

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

## Supply

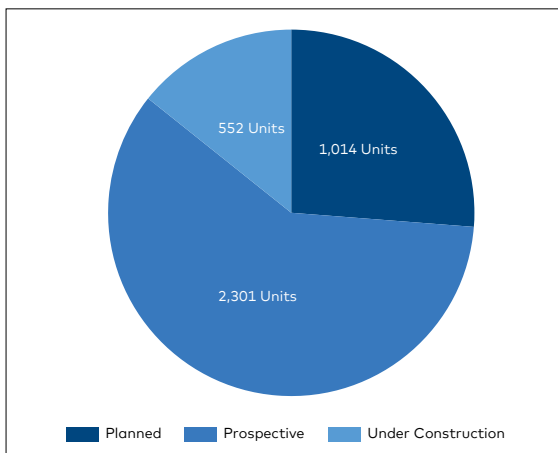
- A little over 800 units came online in 2018 in Albuquerque, the vast majority being in Class A or B communities in the urban core. Backed by an improving employment market, the metro's delivery pace picked up slightly from only 289 units completed in 2017. Large companies such as Facebook and Netflix are slated to add new jobs over the next few years. If Albuquerque continues to attract new businesses, rental demand is likely to accelerate, putting upward pressure on rates due to a slow development pipeline.
- Roughly 550 units were underway as of December, with an additional 3,300 units in the planning and permitting stages. Yardi Matrix expects 270 units to come online this year in Albuquerque. Most projects under construction are geared toward Lifestyle renters. Developers are responding to increasing demand for high-end rentals, which drove rents to grow 4.5% last year, to \$1,062.
- Developers are targeting Downtown/South Valley (364 units) and Santa Fe (188 units) particularly due to their proximity to clusters of high-paying jobs. One of the largest communities underway is Titan Development's \$34 million Broadstone Rodeo, a 188-unit luxury project in Santa Fe.

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



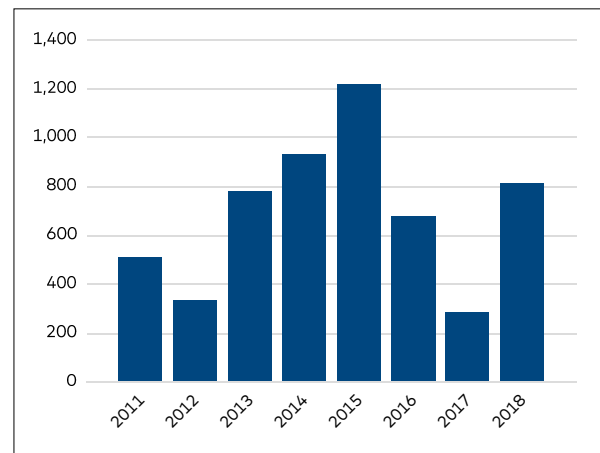
Source: YardiMatrix

**Development Pipeline** (as of December 2018)



Source: YardiMatrix

**Albuquerque Completions** (as of December 2018)

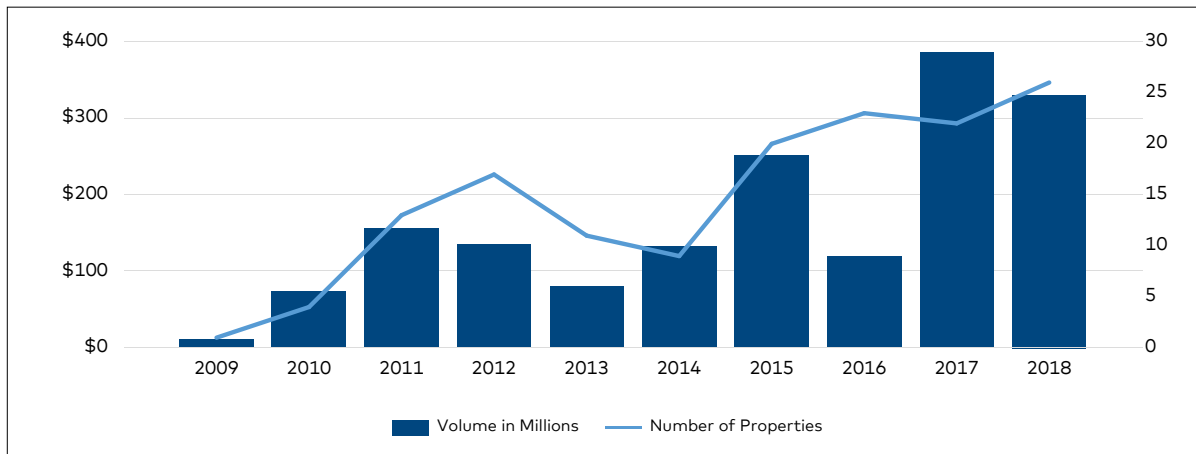


Source: YardiMatrix

## Transactions

- Roughly \$331 million in multifamily assets changed hands in 2018 in the metro. Although investor activity remains fairly tepid, last year's investment volume was second only to the 2017 cycle peak of \$387 million. With most traded communities being in the Renter-by-Necessity segment, the average price per unit clocked in at only \$86,256, well below the \$153,765 U.S. average.
- Although compressing, acquisition yields in the first half of last year remained in the 6.0% to 7.0% range for Class A/B assets.
- Northeastern submarkets such as the Eastside (\$100 million), Balloon Fiesta Park–West (\$61 million) and Balloon Fiesta Park–East (\$49 million) were the most sought-after. DiNapoli Capital Partners was one of the most active players last year, investing approximately \$62 million in two Eastside properties.

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



Source: YardiMatrix

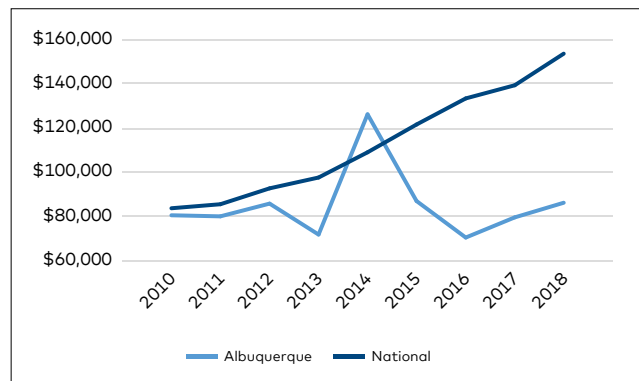
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Eastside	100
Balloon Fiesta Park–West	61
Balloon Fiesta Park–East	49
Paradise Hills	34
Downtown/South Valley	23
Uptown	19
Los Alamos	15
Vista Encantada	14

Source: YardiMatrix

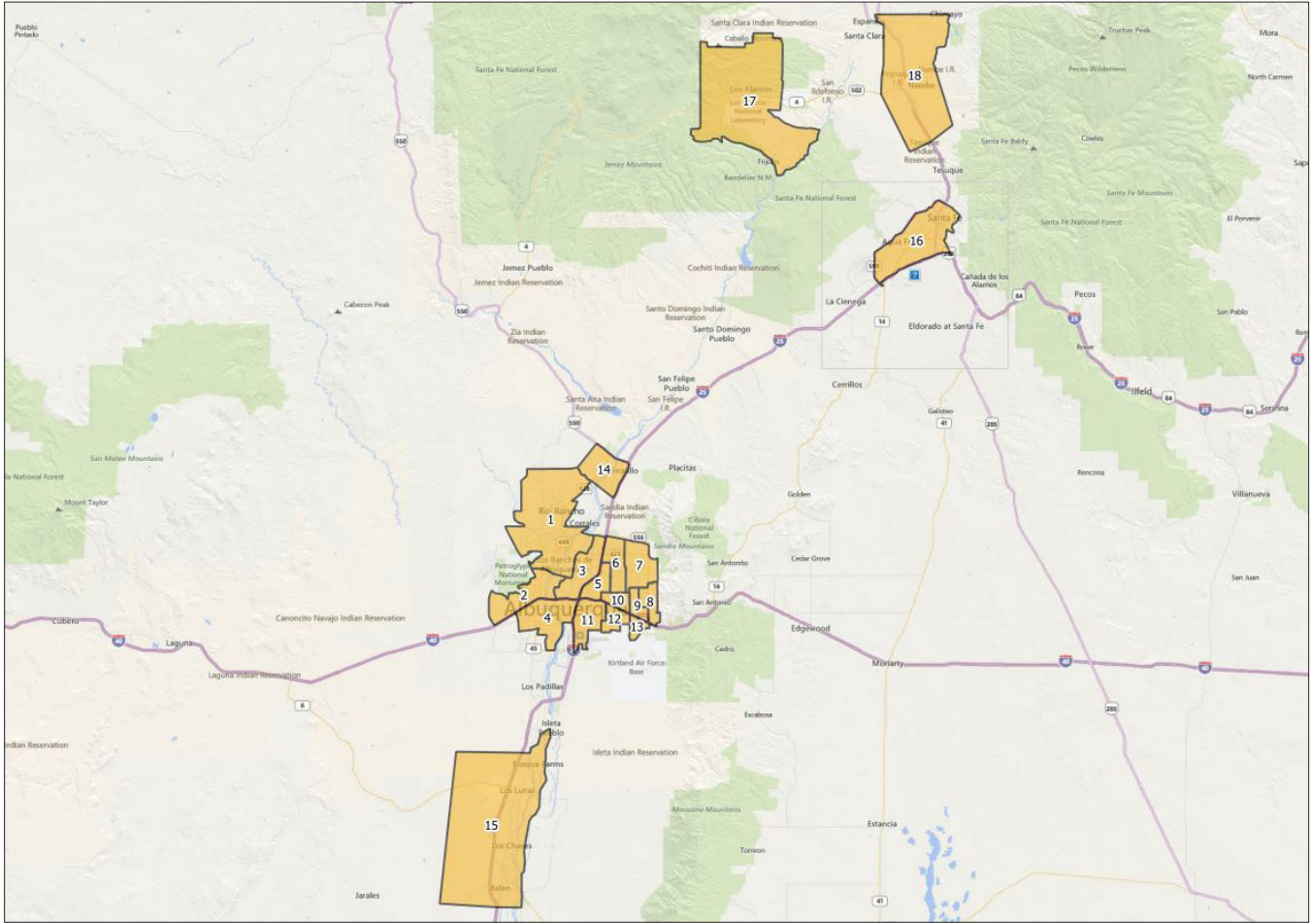
<sup>1</sup> From January 2018 to December 2018

### Albuquerque vs. National Sales Price per Unit



Source: YardiMatrix

# 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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