Yardi® Matrix

# Albuquerque: Take One

## Multifamily Report Summer 2019

Rent Growth Exceeds Expectations

Investment Takes a Step Back

Development Remains Tepid

## Market Analysis
Summer 2019

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# Rent Performance Stuns

Albuquerque's multifamily supply woes are a rent growth boon. Limited housing supply in the face of steady demand resulted in a strong rent increase of 4.9% year-over-year through July, as occupancy rose to 95.5%.

Still lagging the nation in employment growth, the metro is finally poised to see significant job gains, thanks to recent advances in its movie industry. The leisure and hospitality sector led growth with the addition of 2,900 jobs, up 5.2% year-over-year through June. The metro is poised to become a presence in the movie industry, due to the acquisition of ABQ Studios by Netflix, which has a long-term investment plan, and to NBCUniversal's plan to open a film and TV studio, a $500 million, 10-year project. In addition, Presbyterian Hospital's multi-phase project is coming to fruition, with the opening of the first of three new care centers and a planned 11-story tower set to follow, at a cost of $260 million.

Following what, by the metro's own lackluster standards, was a strong year for completions, only one property totaling 58 units was delivered during the first seven months of 2019. Transaction activity also slowed considerably, with just $55 million in rental assets trading. While some 570 units are now underway, rent growth is expected to continue in 2019.

### Recent Albuquerque Transactions

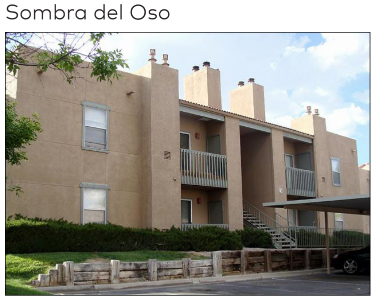
The Retreat at Candelaria

City: La Cuesta, N.M.
Buyer: Landmark Realty
Purchase Price: $39 MM
Price per Unit: $76,719

Ventana Canyon

City: Paradise Hills, N.M.
Buyer: Thayer Manca Residential
Purchase Price: $34 MM
Price per Unit: $128,282

Sombra del Oso



City: . Paradise Hills, N.M.
Buyer: DiNapoli Capital Partners
Purchase Price: $31 MM
Price per Unit: $91,162

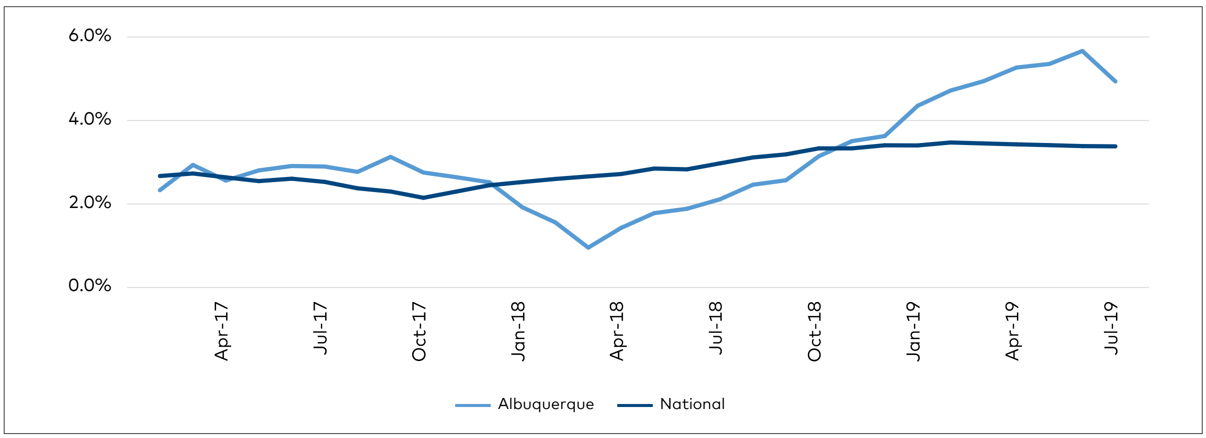
Pearl at Spring Creek

City: Uptown, N.M.
Buyer: Landmark Realty
Purchase Price: $21 MM
Price per Unit: $67,081

## Rent Trends

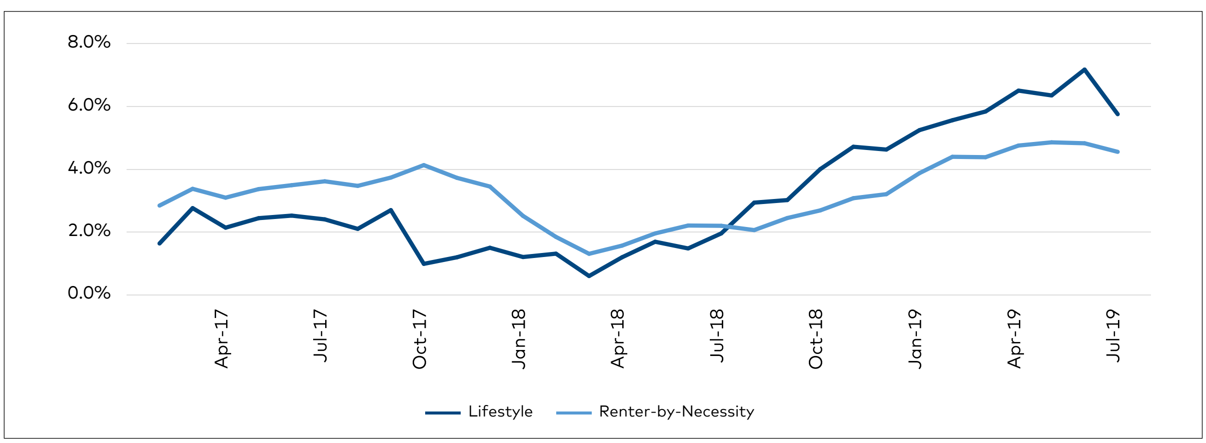
- Rents in Albuquerque rose 4.9% year-over-year through July, above the 3.4% national rate. A very limited housing supply coupled with the high cost of construction has resulted in rent increases in the past few months.
- Rent growth was led by the Lifestyle segment, which rose 5.8% to an average of $1,102. At $826, the working-class Renter-by-Necessity segment rose 4.6% year-over-year through July. Other small markets besides Albuquerque are seeing rent gains due to limited housing supply: Tacoma (5.7%), Sacramento (5.3%) and Colorado Springs (5.1%). However, those metros benefit from considerable spillover from nearby tech centers with significant affordability issues.
- Los Alamos (8.3%), Balloon Fiesta Park–West (8.0%) and Santa Fe (7.9%) saw the most significant rent growth year-over-year. Six submarkets had average rents of at least $1,000.
- The slowdown in new supply continues to be the most significant factor driving occupancy higher. Year-over-year through June, the average occupancy rate in stabilized properties increased by 40 basis points, reaching 95.5%. We expect a 2.8% rent growth by year's end.

**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)

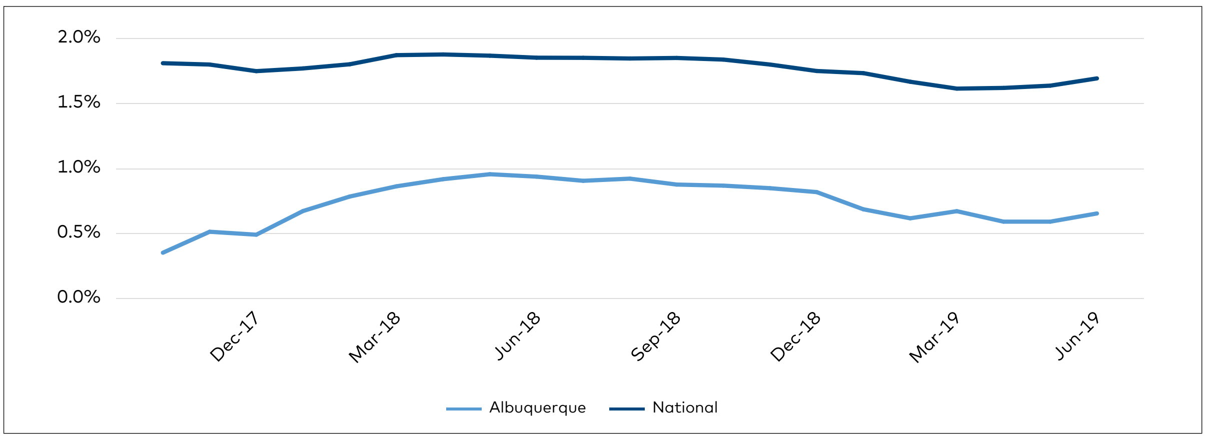



Source: YardiMatrix

## Economic Snapshot

- Albuquerque gained 4,100 jobs in the 12 months ending in June, a 0.7% year-over-year increase, well below the 1.7% national rate of employment growth.
- Employment has been rising quickly in the metro. The leisure and hospitality sector led gains, with the addition of 2,900 jobs in the 12 months ending in June. The sector also saw the largest year-over-year increase—5.2%. Education and health services expanded by 3.3% year-over-year, gaining 2,500 positions. Presbyterian Healthcare Services has opened a new care center, which is part of a three-property project. The hospital's board has further approved a $260 million, 11-story property totaling 335,000 square feet.
- The metro is expected to become a major hub in the broadcast television and cable film industries, with Netflix completing the acquisition of ABQ Studios and planning to bring $1 billion worth of productions to New Mexico over the next decade. NBCUniversal's $500 million, 10-year project to turn a warehouse into a television and film studio is also set to greatly impact the sector.
- Led by state-level cuts, the trade, transportation and utilities sector contracted by 1,100 jobs. The mining, logging and construction sector saw the largest year-over-year decrease—3.3% as of June.

**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)

| | | Current Employment | | Year Change | |
|---|---|---|---|---|---|
| Code | Employment Sector | (000) | % Share | Employment | % |
| 70 | Leisure and Hospitality | 59 | 12.8% | 2,900 | 5.2% |
| 65 | Education and Health Services | 78 | 16.9% | 2,500 | 3.3% |
| 60 | Professional and Business Services | 68 | 14.7% | 2,100 | 3.2% |
| 80 | Other Services | 16 | 3.5% | 200 | 1.2% |
| 30 | Manufacturing | 17 | 3.7% | 100 | 0.6% |
| 55 | Financial Activities | 21 | 4.5% | -400 | -1.9% |
| 50 | Information | 7 | 1.5% | -500 | -6.3% |
| 90 | Government | 96 | 20.8% | -800 | -0.8% |
| 15 | Mining, Logging and Construction | 26 | 5.6% | -900 | -3.3% |
| 40 | Trade, Transportation and Utilities | 72 | 15.6% | -1,100 | -1.5% |

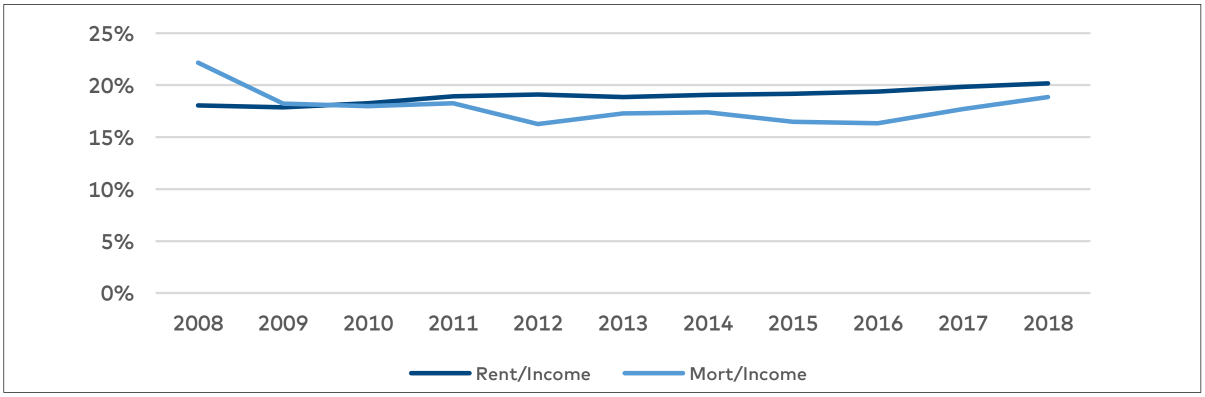
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

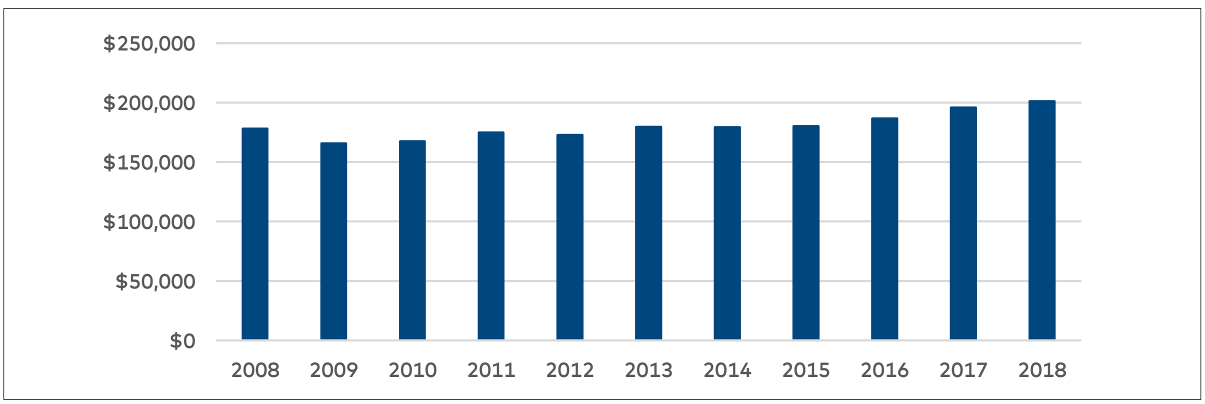
- The median home price has been rising in the past five years, reaching $201,176 in 2018. Despite continued growth in home prices, owning remained slightly more affordable than renting, accounting for 19% of the area's median income. At $914, rents equated to 20% of income.
- The sluggish rate of deliveries coupled with rent growth is expected to continue putting more upward pressure on home prices. The metro's most expensive submarket, Santa Fe, is also facing rising affordability issues, as the city's ordinance—pushing for the construction of more affordable apartments—is set to expire at the end of the year.

**Albuquerque Rent vs. Own Affordability as a Percentage of Income**




Sources: YardiMatrix, Moody's Analytics

**Albuquerque Median Home Price**




Source: Moody's Analytics

### Population

- The metro's population grew by 3,849 residents in 2017, up 0.4%, below the 0.7% U.S. rate.
- Albuquerque's population is expected to increase, due to the metro's affordability and strong economic growth.

**Albuquerque vs. National Population**

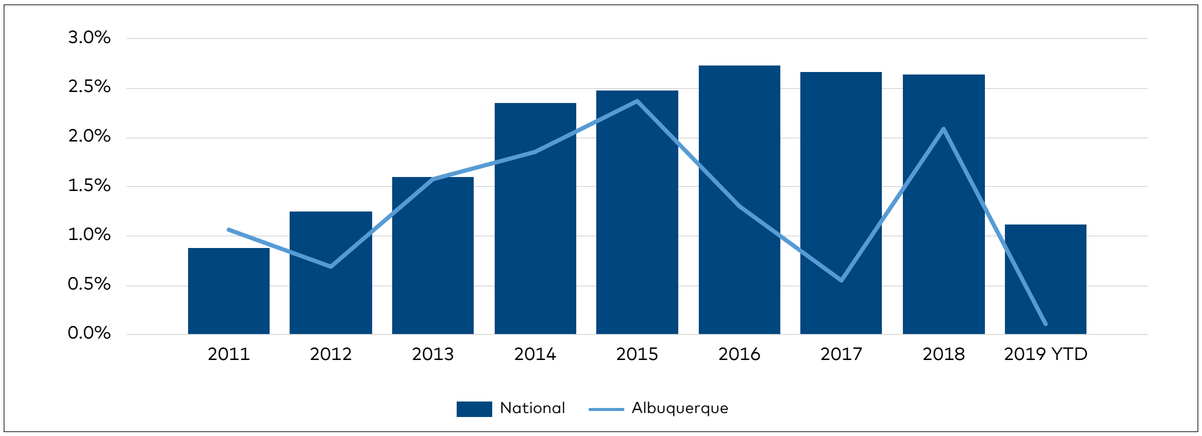
| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| National | 316,234,505 | 318,622,525 | 321,039,839 | 323,405,935 | 325,719,178 |
| Albuquerque Metro | 902,083 | 902,069 | 903,489 | 906,877 | 910,726 |

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

## Supply

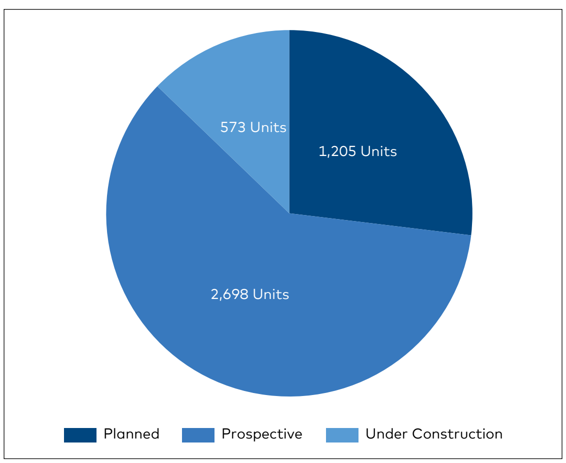
- As of July, 573 multifamily units were under construction, 270 of them expected to come online by year's end. Although rents have overperformed in Albuquerque for some time now, developer reactions are lagging, as deliveries and construction starts have stayed limited.
- Year-to-date, only one property totaling 58 units has come online. Given the number of properties underway, total completions this year will trail far behind last year's 1,100 units. Strong job growth, caused by major companies moving to the metro, is expected to attract residents. As a result, the need for housing, especially in neighborhoods with access to entertainment and jobs, is expected to increase.
- Developers are targeting core submarkets including Downtown/South Valley (294 units) and Santa Fe (275 units). Downtown is also home to the largest project currently underway: GSL Properties' Valle de Atrisco, a 240-unit fully affordable community scheduled for completion by mid-2020.
- Limited inventory of available units has pushed the occupancy rate in stabilized properties to 95.5% as of June, 40 basis points higher than the same month last year.

**Albuquerque vs. National Completions as a Percentage of Total Stock** (as of July 2019)



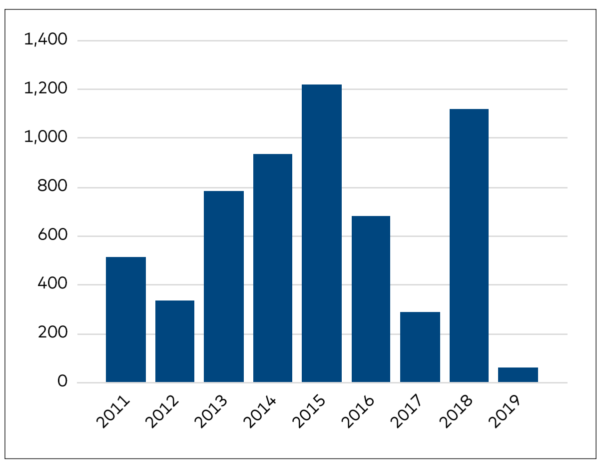

Source: YardiMatrix

**Development Pipeline** (as of July 2019)




Source: YardiMatrix

**Albuquerque Completions** (as of July 2019)

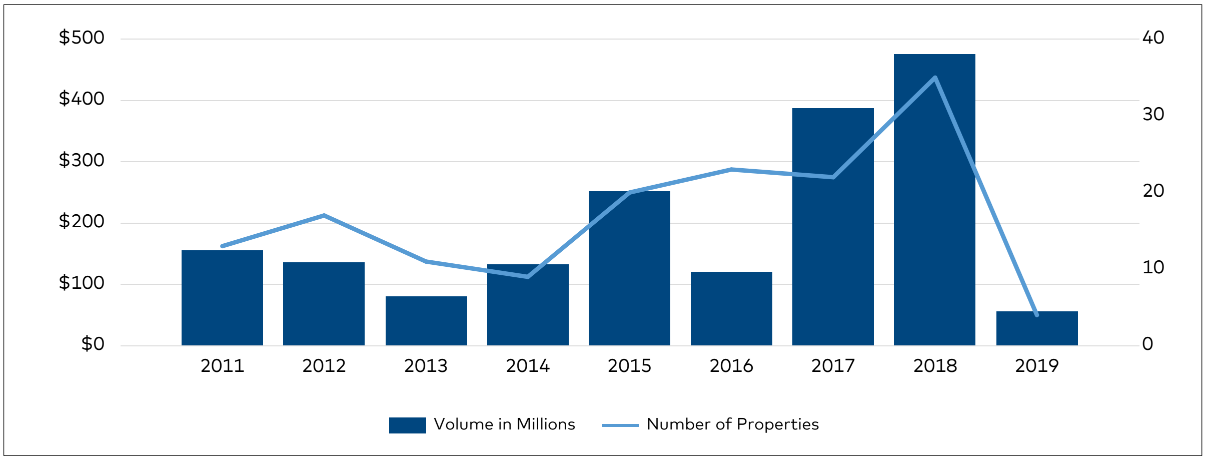



Source: YardiMatrix

## Transactions

- Sales activity in the metro was tepid, following a very active 2018, when $475 million in multifamily assets traded. As of July, only four properties totaling $55 million changed ownership, three of them in the Renter-by-Necessity segment. Per-unit prices continued to rise, reaching $88,933 year-to-date through July, but investors are likely to continue investing capital in the metro, due to its strong economic growth and well-performing rents. Furthermore, the per-unit average is well below the $157,576 national number.
- Paradise Hills ($65 million), Balloon Fiesta Park–West ($47 million), La Cuesta ($41 million) and Eastside ($39 million) attracted the most capital in the 12 months ending in July. Landmark Realty was one of the most active buyers in the metro, having acquired two properties totaling $60 million. Thayer Manca Residential's purchase of Ventana Canyon recorded the highest per-unit price—$128,282.

**Albuquerque Sales Volume and Number of Properties Sold** (as of July 2019)




Source: YardiMatrix

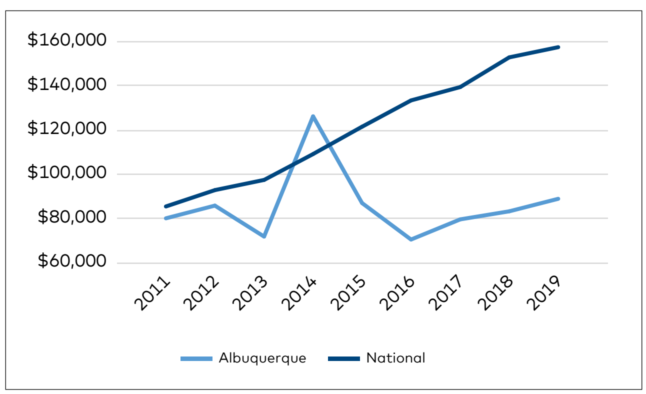
**Top Submarkets for Transaction Volume**[1]

| Submarket | Volume ($MM) |
|---|---|
| Paradise Hills | 65 |
| Balloon Fiesta Park–West | 47 |
| La Cuesta | 41 |
| Eastside | 39 |
| Uptown | 21 |
| Westside | 21 |
| Los Alamos | 15 |
| Downtown/South Valley | 9 |

Source: YardiMatrix

[1] From August 2019 to July 2018

**Albuquerque vs. National Sales Price per Unit**




Source: YardiMatrix

## Executive Insight

Brought to you by: MULTI-HOUSING NEWS

## Multifamily Investment: What Fuels Albuquerque's Climb?

By Laura Calugar

With job growth in line with the U.S. average for the first time this cycle, Albuquerque's multifamily market has had a relatively strong year so far. Large investments—including Facebook's data center development in Los Lunas, N.M., Netflix's recent acquisition of ABQ Studios and NBCUniversal's commitment to build a new TV and film studio—are luring investors and boosting rental demand.

HiCap Management Co-Founders Joseph Baum and Benjamin Sandel discuss current trends in the market and how billion-dollar investments are altering the metro's multifamily industry.

*Tell us a few key points about Albuquerque's multifamily market today.*

**Baum:** Albuquerque's multifamily market has really taken a turn this last year, due to recent hiring across the metro area. Affordability is still the main trend when it comes to renting apartments, but as job growth continues, we are seeing more demand for renovated product and the ability to increase rents on non-renovated product in prime areas. With more job growth on the horizon, Albuquerque remains significantly more affordable than competing metros like Las Vegas and Phoenix.

*Which submarkets within the metro do you consider most attractive for investors and developers and why?*

**Baum:** We consider Uptown to be one of the most attractive areas for investment and development within the metro. Uptown sits in the center of the city, with great highway access and within walking distance of the best shopping and retail in the city. The limited supply of housing in Uptown makes it particularly attractive, as more people move to the Albuquerque metro in search of an urban city-like environment.

Joseph Baum *(left)* and Benjamin Sandel *(right)*

*How do you expect the major investments announced here to influence the metro's multifamily market going forward?*

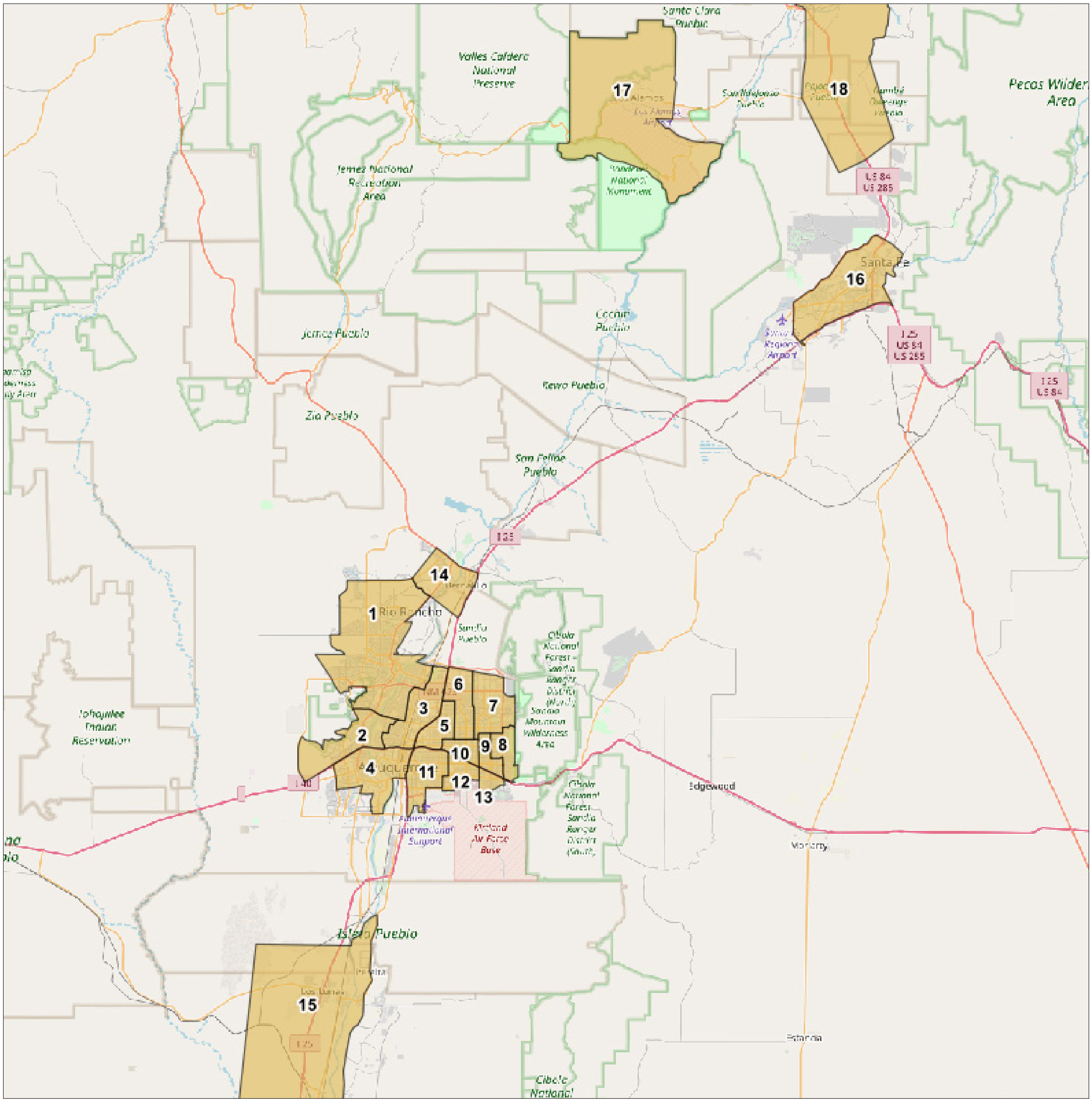
**Sandel:** We feel that Facebook, Net-flix and most recently NBCUniversal's commitment to expand in Albuquerque have created somewhat of a snowball effect, where more small and large companies will continue to seek out Albuquerque for expansion. I believe we will see the biggest impact with more demand for lifestyle/amenity-focused properties. We feel that this will also trickle down to the workforce housing category, where we might see a reduction in concession-driven rentals and steady rent growth across all classes of multifamily.

*How hard is it to get financing for your projects in New Mexico?*

**Sandel:** We have had success in financing our Albuquerque properties with both Fannie Mae and Freddie Mac. While there are some local lenders that we have spoken to in the past, agency financing remains the most competitive debt source in the market for stabilized and light value-add multifamily.

*(Read the complete interview on multihousingnews.com).*

## 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 |
| 18 | Espanola |

## 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.

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