

YARDI® Matrix

Albuquerque Brightens Up

Multifamily Summer Report 2016

**Health Care, Solar
Energy Buoy Economy**

**Supply Expands Amid
Tepid Rent Growth**

**Investor Interest
Heats Up**

Market Analysis

Summer 2016

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Albuquerque Seeks Picked-Up Pace

Despite its prime position at the center of the New Mexico Technology Corridor, a cluster of high-tech companies and government institutions along the Rio Grande, Albuquerque's multifamily market continues to struggle with limited population and employment growth, not to mention a crime rate ranking among the highest in the country.

Historically a ranching and mining state, New Mexico still gets a major economic contribution from its natural resources, despite the decline in oil prices. Renewable energy is an emerging force, as well. More than 110 solar power-related companies employing nearly 2,000 people call New Mexico home. In 2015, the state ranked 13th nationally in installed solar capacity. In Albuquerque, the University of New Mexico recently broke ground on Innovate ABQ, a \$35 million project envisioned as a research and innovation hub.

The metro's multifamily fundamentals are generally weak, in contrast to the gains seen in most metros. Population growth is feeble, but development is almost on par with the national growth rate. Transaction volume more than doubled from 2014 to 2015, a sign of rising interest from investors. On the minus side, rent growth was less than 1.5% year-over-year through July, disappointingly behind the national rate of 5.7%. We expect continued tepid growth of 1.0% in 2016.

Recent Albuquerque Transactions

Cantata at the Trails



City: Albuquerque, N.M.
Buyer: ReNUE Properties
Purchase Price: \$34 MM
Price per Unit: \$130,769

San Miguel del Bosque



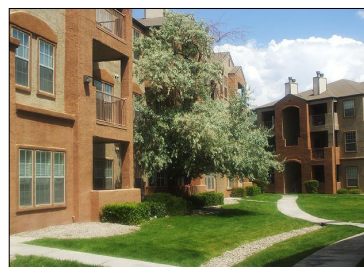
City: Albuquerque, N.M.
Buyer: Carter-Haston Real Estate Services
Purchase Price: \$31 MM
Price per Unit: \$87,078

Mesa del Oso



City: Albuquerque, N.M.
Buyer: Aragon Holdings
Purchase Price: \$30 MM
Price per Unit: \$135,746

Camino Real

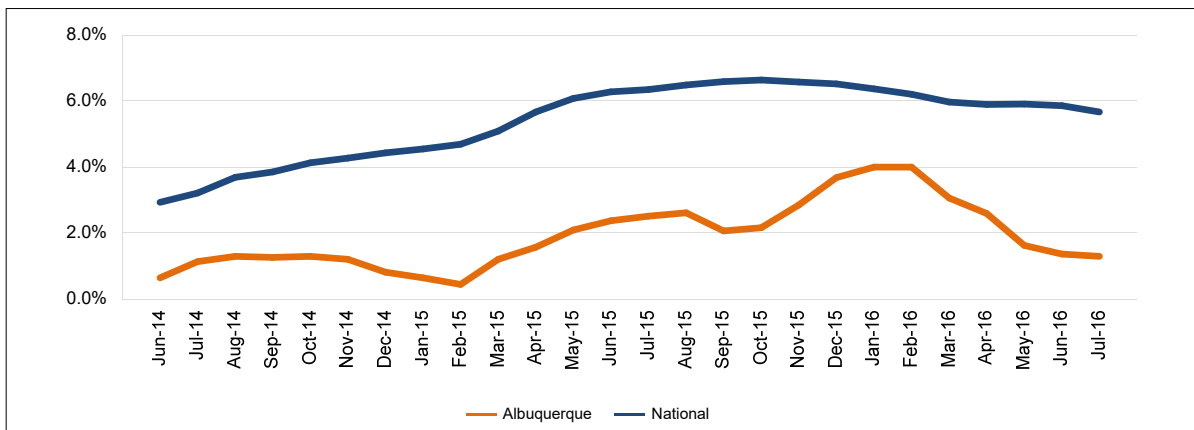


City: Albuquerque, N.M.
Buyer: Maxus Realty Trust
Purchase Price: \$28 MM
Price per Unit: \$112,903

Rent Trends

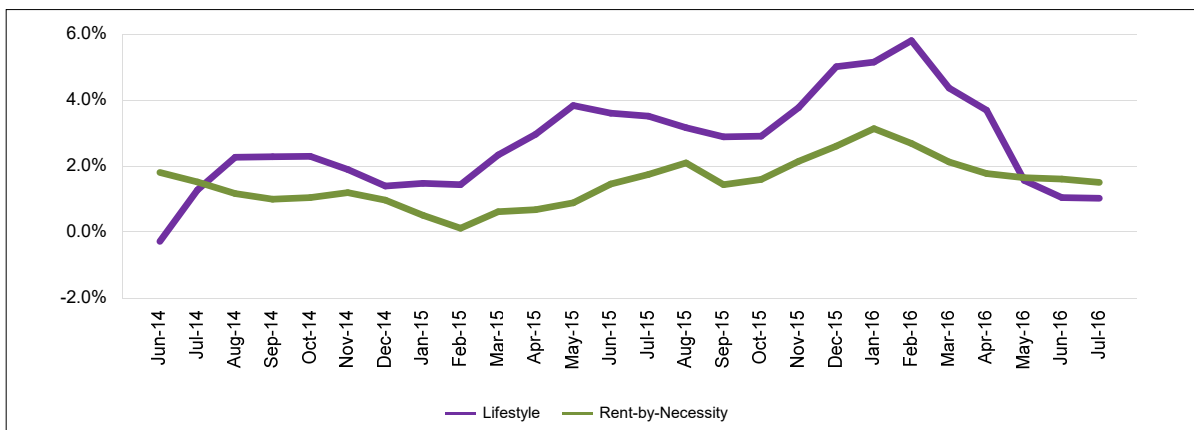
- Rent growth in Albuquerque continues to be weak, rising a meager 1.3% year-over-year through July, well below the 5.7% national average. Despite the tepid growth, the metro has been among the most stable markets in the region, having avoided the severe occupancy and rent declines experienced by most of the other Sunbelt markets from 2009 to 2011. The occupancy rate for stabilized properties was 95.2% as of June.
- Rent growth was led by the working-class Renter-by-Necessity segment, up 1.5% year-over-year through July to an average of \$708, while rates in the upscale Lifestyle segment rose 1% to \$996.
- The average rent in the metro is \$807, also well below the national average of \$1,217. The low average rent is driven by the high proportion of studios and one-bedroom apartments relative to other metros, and the low average household income. The composition of the inventory isn't likely to change significantly, given the general lack of new supply.
- Rent growth has been consistent in both urban and suburban submarkets. Submarkets with the highest increase include North Valley (9.4%), Santa Fe (3.9%), Canada Village (3.7%), Los Alamos (2.9%), Balloon Fiesta Park – East (3.2%) and Downtown/ South Valley (3.2%).

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)

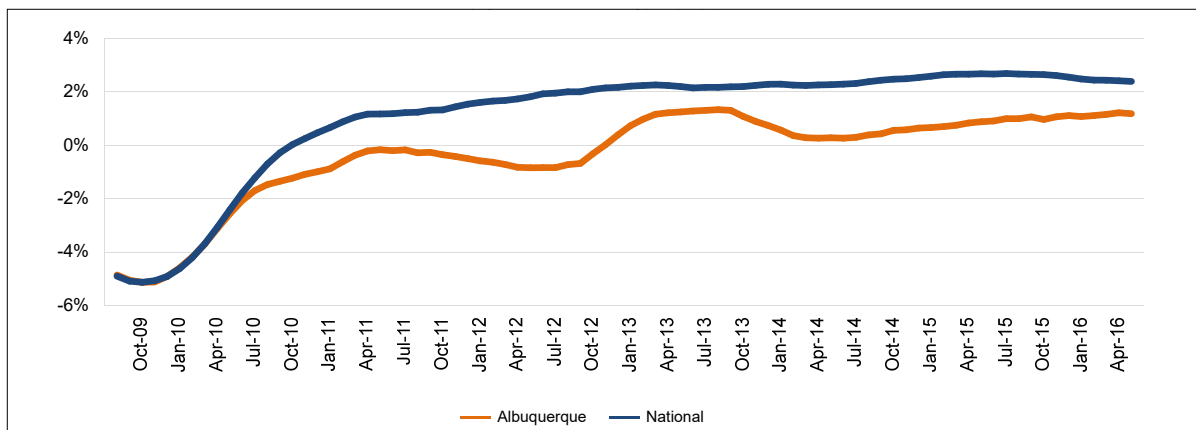


Source: YardiMatrix

Economic Snapshot

- Albuquerque added 5,600 jobs in the year ending in May, a 1.2% year-over-year increase. The growth rate was an improvement from last year's 0.8%, but still trailed the 2.4% national average. The Duke City has consistently lagged the nation's job growth in the years following the Great Recession.
- Job growth in the metro over the last year was led by education and health services (2,400). New Mexico is one of the 31 states that have opted to expand Medicaid in conjunction with Obamacare, a move that has boosted job growth.
- Professional and business services (1,200) and information (200) both added jobs at a higher rate than the market average, demonstrating the effort to lure technology companies. Employment shows signs of strengthening, as Skorpis Technologies' expansion will create up to 300 jobs.
- New Mexico's open landscape makes it ideal for the solar industry, which ranks 8th in the nation in terms of installed solar capacity per capita, according to the Environment America Research and Policy Center. SolarCity's operations center in Albuquerque's West Side and ZingSolar's expansion are examples of growth. Meanwhile, the manufacturing sector, once one of Albuquerque's strongest sectors, lost 500 positions.

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	%
65	Education and Health Services	76	16.9%	2,400	3.3%
60	Professional and Business Services	63	14%	1,200	2.0%
15	Mining, Logging, and Construction	24	5.3%	1,000	4.3%
70	Leisure and Hospitality	53	11.8%	900	1.7%
90	Government	99	22%	400	0.4%
50	Information	10	2.2%	200	2.1%
40	Trade, Transportation, and Utilities	74	16.4%	100	0.1%
55	Financial Activities	21	4.7%	0	0.0%
80	Other Services	15	3.3%	-100	-0.7%
30	Manufacturing	17	3.8%	-500	-2.9%

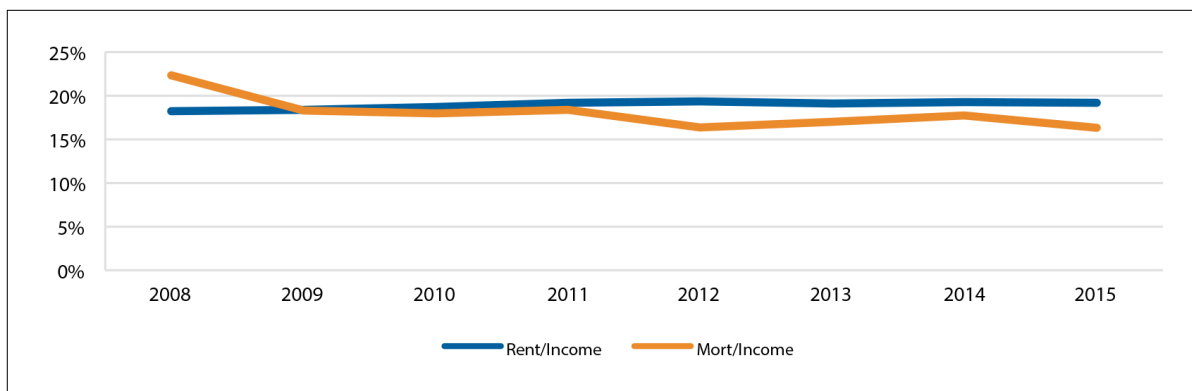
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

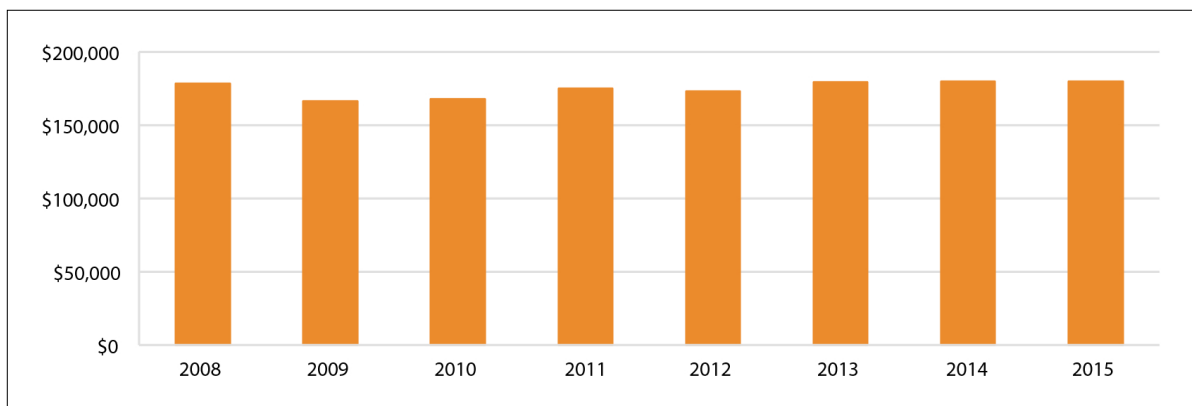
- Albuquerque continues to be a relatively affordable market. The average mortgage accounts for 16% of the area's median income of \$48,981, due to slight increases in home prices in recent years. The median home price climbed to \$179,682 in 2015, an increase of only 0.8% since 2008.
- Renting is less affordable than owning, as the average rent accounts for 19% of the area's median income. Yet renting is preferred over homeownership as Millennials are forming households and are unwilling or unable to take on the financial burden of homeownership. Albuquerque is inexpensive compared to most major U.S. metros.

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 added a mere 2,600 residents in 2015, a 0.3% year-over-year increase, trailing the 0.8% national rate.
- Only 10,300 residents have moved to the metro since 2011.

Albuquerque vs. National Population

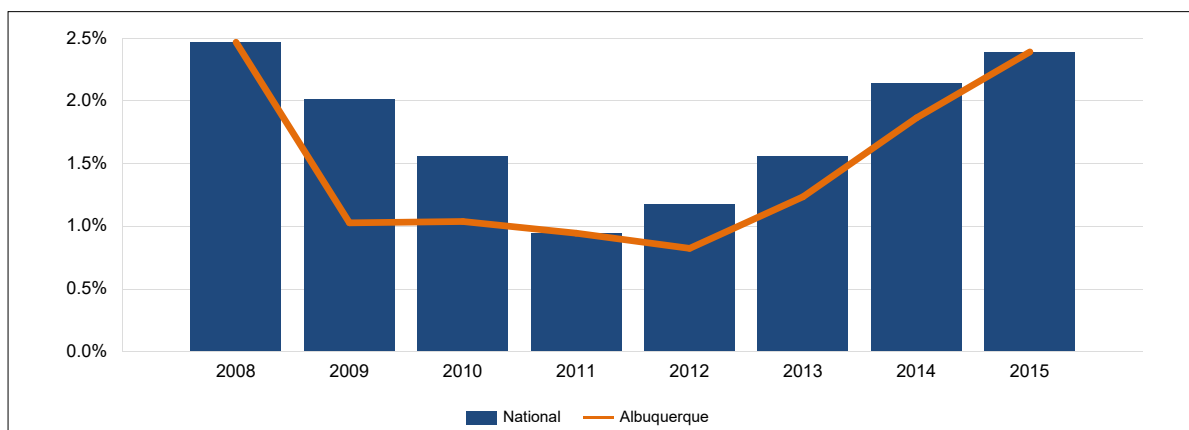
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Albuquerque, NM Metropolitan Statistical Area	897,024	901,103	903,502	904,720	907,301

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

Supply

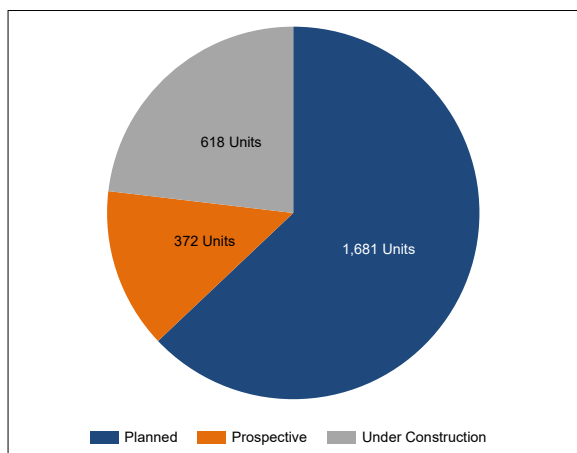
- Multifamily development in Albuquerque remains limited with only 1,381 units delivered year-over-year through July, 2016. This represents a 2.4% expansion of the multifamily stock, in line with the national growth rate of 2.4%. Albuquerque's potential for urban growth is tied to the locations of vacant land that is suitable for development.
- The development pipeline encompasses around 2,700 units, more than 600 of which are currently under construction. Roughly 80% of apartment complexes built in the metro last year were geared toward higher income renters, compared to the 75% national average. While new supply is needed, it remains to be seen if high-end units target the right audience.
- Development is concentrated in the urban core, in submarkets that offer amenities such as shopping, dining, hotels and leisure activities. The submarkets with the most units under construction are Paradise Hills (166), Downtown/South Valley (131) and Uptown (85).
- The largest projects currently underway in the metro are the 166-unit Aspens Phase II in Paradise Hills the 85-unit Casa Feliz in Uptown and the 74-unit The Imperial in Downtown/South Valley.

Albuquerque vs. National Completions as a Percentage of Total Stock (as of July 2016)



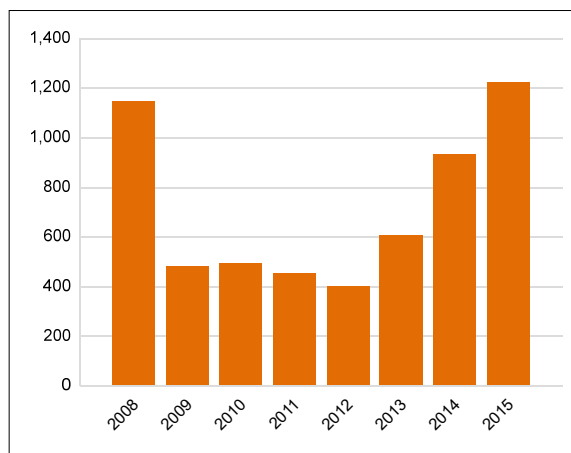
Source: YardiMatrix

Development Pipeline (as of July 2016)



Source: YardiMatrix

Albuquerque Completions (as of July 2016)

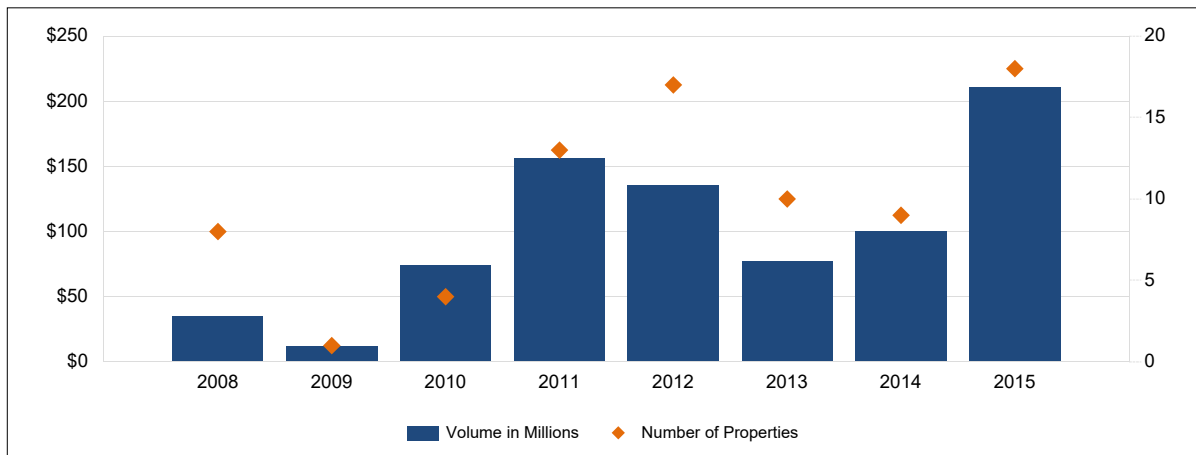


Source: YardiMatrix

Transactions

- More than \$210 million worth of properties changed hands in the metro in 2015, marking a peak in the current cycle. This more than doubles the transaction volume recorded in 2014. Investors are satisfied with Albuquerque's stable market because in the event of an economic downturn, their assets are resistant to big drops in occupancy.
- The average price per unit marked another peak in the current cycle registering a big jump to \$109,937 in 2015, a significant increase from last year's \$77,107, yet still well behind the national average of \$117,256.
- Submarkets with the highest activity were Paradise Hills and Eastside. The \$34 million acquisition of Cantata at the Trails by ReNUE Properties ranked as Albuquerque's largest multifamily transaction in 2015, followed by Carter-Haston Real Estate Services' \$30.8 million acquisition of San Miguel del Bosque.

Albuquerque Sales Volume and Number of Properties Sold (as of July 2016)



Source: YardiMatrix

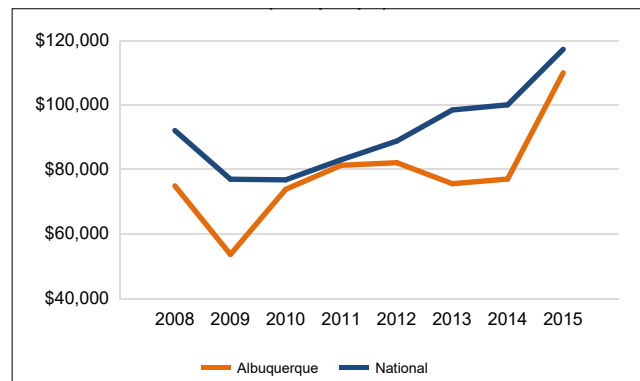
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Paradise Hills	93
Eastside	53
Chetwood Park	24
La Cuesta	12
Midtown/University	7

Source: YardiMatrix

¹ From August 2015 to July 2016

Albuquerque vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



CBRE Secures Refi for Duke City Apartment Community



Albuquerque Landmark Hits the Market



CPP Renovates Affordable New Mexico Homes

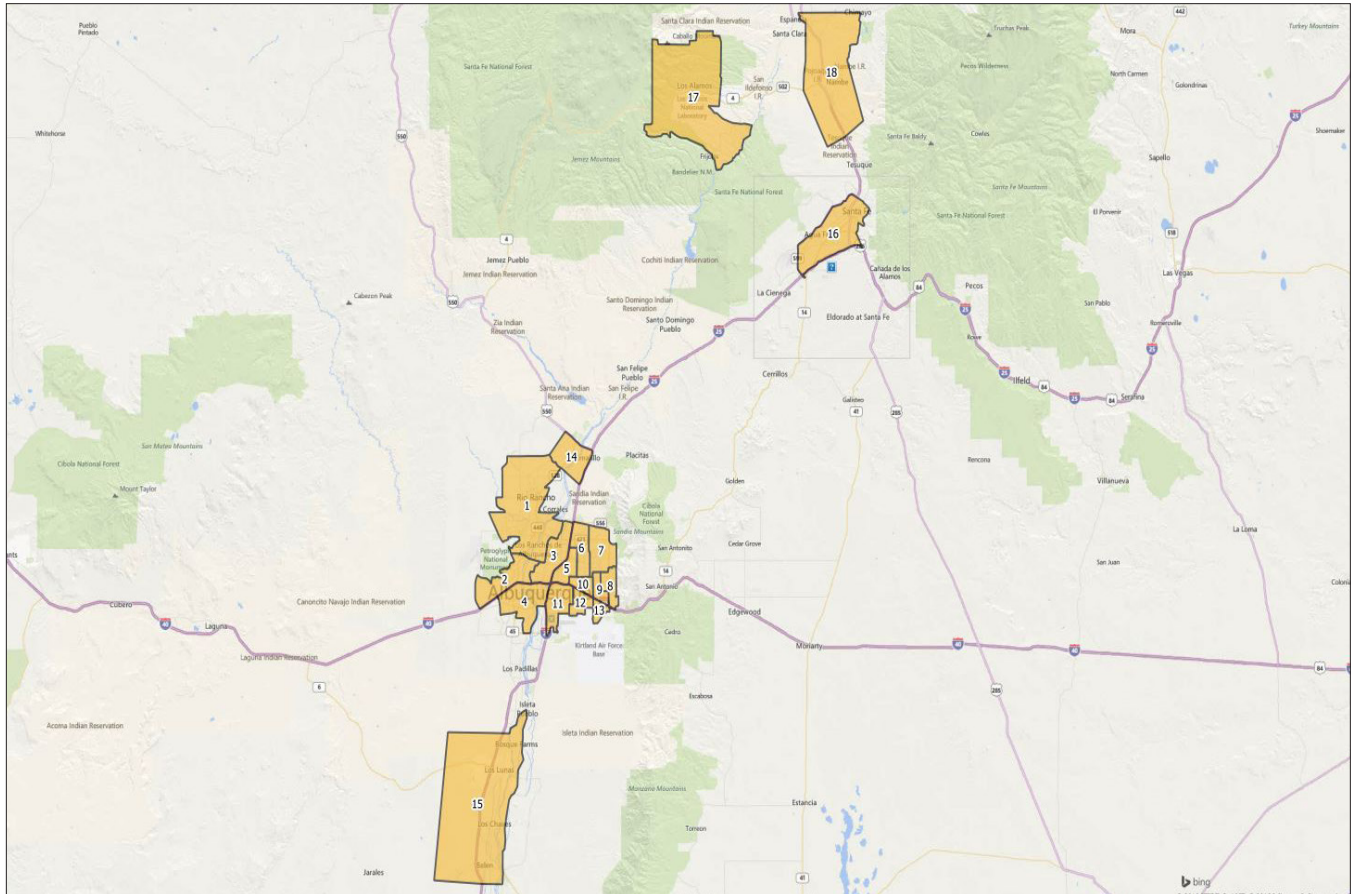


Construction to Start on 'Live-Work-Play' Building in The Duke City

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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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