

Greater Albuquerque Multifamily

Vacancy Holding Steady, Rent Growth Gaining Momentum

Highlights

- > Conditions in the Albuquerque multifamily market brightened a bit in the third quarter. Vacancy remained low, while employment growth and rental rates accelerated.
- > Vacancy has been stable in 2018, and the rate ended the third quarter at 4.4 percent. The current vacancy rate is 50 basis points higher than one year ago.
- > Rent growth gained momentum in recent months, following a slow first half of the year. Asking rents gained 1.4 percent in the third quarter and, at \$846 per month, are up 2.4 percent year over year.
- > After a very strong first half of the year, investment conditions cooled slightly in the third quarter. While sales velocity slowed in the third quarter, year-to-date transaction volume is still ahead of the pace recorded in 2017.

Albuquerque Multifamily Market Overview

The third quarter proved to be a fairly strong period for the Albuquerque multifamily market. The local vacancy rate was unchanged from the second-quarter figure, but rent growth finally gained some traction. Renter demand for apartments is being supported by an improving employment market. Job growth averaged less than 1 percent per year since 2013, but the pace has more than doubled during the past 12 months. A diverse set of companies, led by Netflix and Intel, have announced plans to enter the market or expand existing operations in Albuquerque. Gains have been strongest in traditionally high-wage, white-collar sectors supporting demand for Class A and newer Class B rental properties.

Market Indicators

	3Q/2018
Vacancy	→
Rents	↑
Transaction Activity.....	↓
Price Per Unit.....	↑
Cap Rates.....	↑

Summary Statistics

Albuquerque Market

Vacancy Rate.....	4.4%
- Change from 3Q 2017 (bps).....	+50
Asking Rents (per month).....	\$846
- Change from 3Q 2017.....	+2.4%
Median Sales Price (per unit YTD).....	\$73,900
Average Cap Rate (YTD).....	6.1%

Albuquerque Multifamily Market Overview (cont.)

Investment activity in Albuquerque slowed during the third quarter, but 2018 is shaping up to be one of the strongest years of sales volume on record. Investors have acquired dozens of local complexes totaling thousands of units, the median price in transactions where pricing data is available has remained consistently strong, and cap rates are in the

low-6-percent range. Some of these trends can be attributed to a handful of newer projects changing hands at elevated per-unit prices, but much of the strength in pricing is the result of improving investor sentiment about the health of the local economy and the multifamily outlook.

Submarket Statistics

Submarket Name	3Q 2018 Vacancy	3Q 2017 Vacancy	Annual Vacancy Change (BPS)	3Q 2018 Rents	3Q 2017 Rents
Downtown/Southwest	5.8%	5.8%	0	\$809	\$777
North Central	3.8%	3.1%	70	\$804	\$794
Northeast	2.8%	2.2%	60	\$983	\$946
Northwest	4.5%	4.2%	30	\$884	\$859
Southeast	5.9%	5.6%	30	\$717	\$716

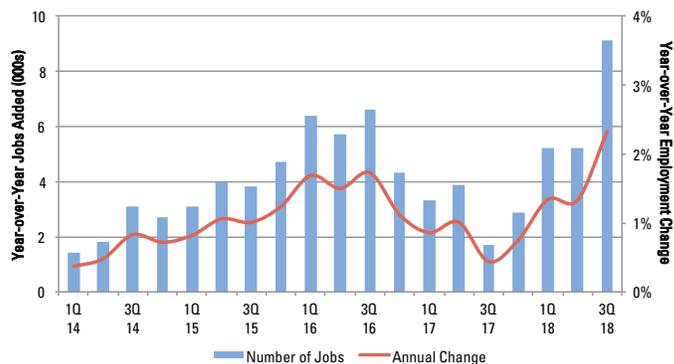
Submarket Map



Employment

- > The pace of job growth accelerated in recent months. Year over year, local employment has expanded by 2.3 percent with the addition of 9,100 new jobs. One year ago, employment in Albuquerque was expanding at a pace of less than 0.5 percent.
- > The professional and business services sector has accounted for nearly half of the new jobs created in Albuquerque during the past year. During the past 12 months, businesses have created 4,200 net new professional jobs, an expansion of nearly 7 percent in this sector.
- > The public sector has also been a source of growth; government employment has expanded by 3 percent in the past year with the addition of 2,500 new positions.
- > **Forecast:** After adding fewer than 5,000 jobs in 2017, employment growth in Albuquerque is forecast to gain momentum this year. Employers are expected to add approximately 8,500 jobs this year, a 2.2 percent pace of growth.

Employment Overview



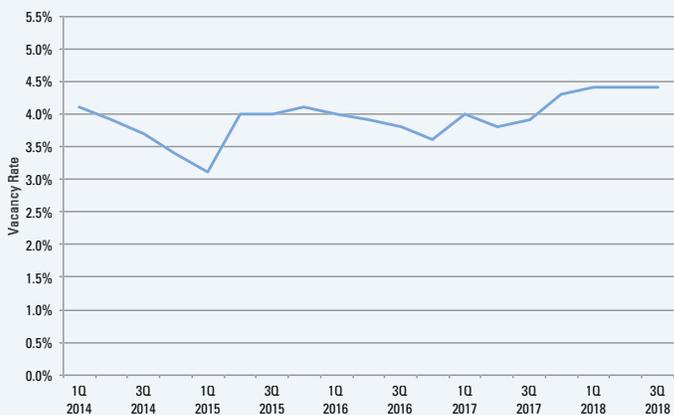
Sources: NorthMarq, Bureau of Labor Statistics

Local employment has expanded by 2.3 percent in the past 12 months

Vacancy

- > Vacancy in Albuquerque was unchanged from the second quarter to the third quarter, holding steady at 4.4 percent. This is the third straight quarter where the vacancy rate has been 4.4 percent.
- > While the rate has been very consistent in 2018, vacancy has ticked up 50 basis points from one year ago. The vacancy rate has generally trended from the mid-3 percent range to the mid-4 percent range since 2015.
- > The Northeast submarket has the lowest vacancy of any submarket in Albuquerque, but the figure is up slightly compared to one year ago. Vacancy in the Northeast submarket has increased by 60 basis points in the past 12 months, ending the third quarter at 2.8 percent.
- > **Forecast:** Vacancy will likely tick higher in the fourth quarter, causing the rate to end the year at approximately 4.7 percent. This would represent an annual increase of 40 basis points from the rate at the end of 2017.

Vacancy Trends



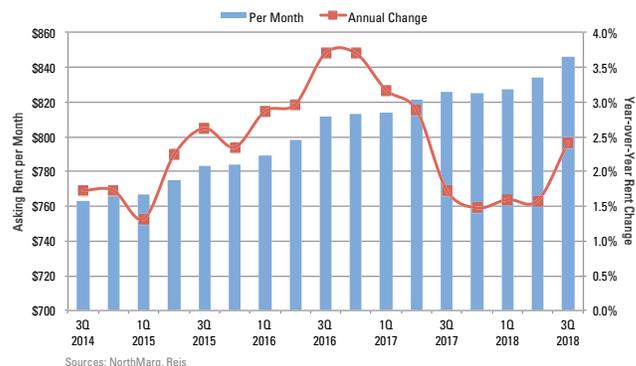
Sources: NorthMarq, Reis

Vacancy in Albuquerque held steady at 4.4 percent

Rents

- > Asking rent growth accelerated during the third quarter, rising 1.4 percent, after minimal gains in the first half of the year. During the past 12 months, asking rents have increased by 2.4 percent to \$846 per month.
- > Class A projects accounted for the most rapid rent growth during the third quarter. Asking rents in Class A properties rose by 1.6 percent in the third quarter, after advancing by just 0.6 percent in the first half of the year. Current Class A asking rents are \$978 per month and will likely top \$1,000 per month in early 2019.
- > The Downtown/Southwest submarket has been posting some of the strongest rent growth in Albuquerque, particularly during the third quarter. Asking rents in the submarket ended the third quarter at \$809 per month, 4.1 percent higher than one year ago.
- > **Forecast:** The health in the local economy should continue to support modest rent increases through the remainder of this year and into 2019. Asking rents are forecast to end 2018 at \$852 per month, a 3.1 percent increase from one year earlier.

Rent Trends

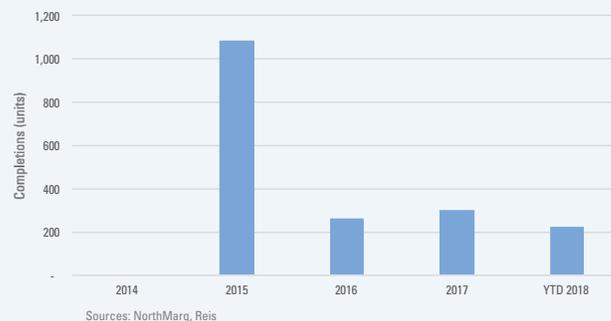


The Downtown/Southwest submarket has been posting some of the strongest rent growth in Albuquerque

Development and Permitting

- > One factor supporting stable vacancy has been minimal inventory growth. Year to date, approximately 225 units have come online in Albuquerque, increasing the local inventory by approximately 0.5 percent.
- > Deliveries will likely pick up in the fourth quarter. Projects totaling approximately 350 units are currently under construction, a handful of which are slated to come online before the end of the year.
- > Multifamily permitting slowed somewhat during the third quarter, with permits for fewer than 50 units issued. Year to date, permits for approximately 100 units have been issued; during the first three quarters of 2017, permits for more than 225 units were pulled.
- > **Forecast:** Approximately 525 apartments are scheduled to be delivered in 2018; 300 units came online in 2017. Construction has averaged 550 units per year since 2015.

Development Trends



Projects totaling approximately 350 units are currently under construction

Multifamily Sales

- > After an active first half of the year, sales of apartment properties slowed during the third quarter. Sales velocity was down more than 30 percent from the second quarter to the third quarter. Despite the recent dip, transaction activity thus far this year is well ahead of the pace established in 2017.
- > In transactions where sales prices have been reported, the median price rose in the third quarter, reaching \$74,500 per unit. Year to date, the median price is approximately \$73,900 per unit, 4 percent below the median price from 2017.
- > Cap rates inched up about 10 basis points during the third quarter to approximately 6.25 percent. Year to date, cap rates have compressed by about 50 basis points, averaging 6.1 percent.

Investment Trends



Transaction activity thus far this year is well ahead of the pace established in 2017

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

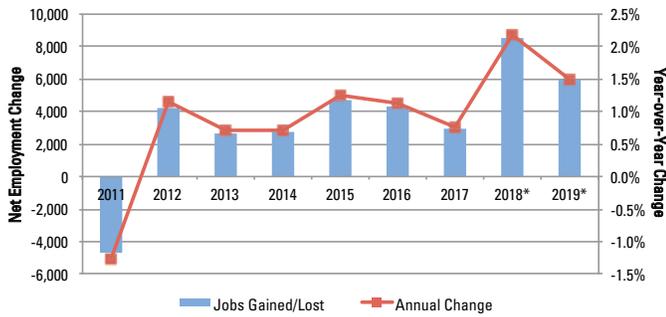
Property Name	Street Address	Units	Sales Price	Price/Unit
Villa Hermosa	2600 Americare Ct. NW, Albuquerque	288	\$20,000,000	\$69,444
Sage Canyon	6134 4th St. NW, Albuquerque	105	\$8,300,100	\$79,048
Zia Apartments	419 Monroe St. NE, Albuquerque	50	\$3,495,000	\$69,900

Looking Ahead

The Albuquerque economy has started to gain traction, and the companies that have announced expansion plans are slated to add jobs over a period of a few years. This growth, as well as the ability of the Albuquerque market to continue to attract new businesses, will play a large role in determining the strength of economic growth and renter demand for apartments in the years to come. The current outlook calls for employment expansion of about 1.5 percent in 2019, down from this year's figure but stronger than the average from 2012-2017. Recent job growth is the primary driver of apartment demand and is expected to continue fueling absorption of units in the year ahead. On the supply side, development has been modest to this point in 2018 but will likely pick up in the coming quarters.

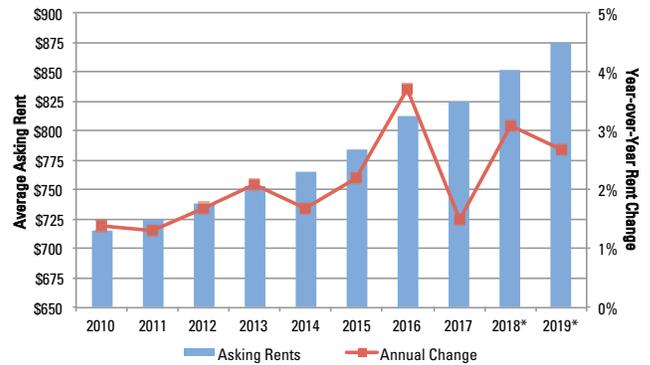
After a very strong start to the year, the local investment market may record some leveling off in the months to come. The Albuquerque investment market has exhibited a great deal of stability in recent years, but there have been some mixed conditions that will likely lead to an adjustment period in the coming quarters. Interest rates are trending higher, which should lead to increased financing costs and could push cap rate expectations higher. Property performance is strengthening, however, which is improving market sentiment and could offset some of the impact of higher financing costs. The prospect of rising rates could spur some transactions to close before the end of the year; a handful of transactions closed early in the fourth quarter and could be indicative of additional activity.

Employee Forecast



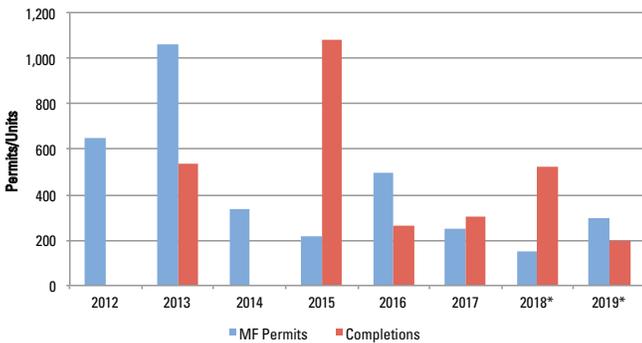
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



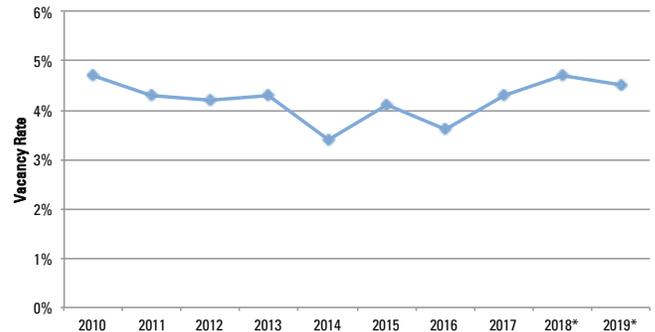
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq Multifamily

NorthMarq Multifamily has a market-leading position in multifamily property sales in markets across the U.S., offering commercial real estate investors a personalized approach to buying and selling multifamily and manufactured housing properties. These teams collaborate with NorthMarq Capital's debt and equity experts nationwide to provide a full range of capital markets services, developing innovative solutions for real estate investments.

NorthMarq Capital, the largest privately held commercial real estate financial intermediary in the U.S., provides debt, equity and commercial loan servicing through over 300 mortgage banking professionals in regional offices coast-to-coast and services a loan portfolio of more than \$53 billion. For more information, please visit www.northmarq.com.

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