



LOCAL APARTMENT INVESTMENT TRENDS SHOW STEADY IMPROVEMENT



BY TODD CLARKE / CEO OF NM APARTMENT ADVISORS

In a world where investors can move their capital to any city offering higher returns, Albuquerque offers three competitive advantages over other similarly sized markets:

1. Availability of small investor inventory
2. Steady investment growth
3. Ability to ladder up

INVENTORY

Small inventory availability in Albuquerque is demonstrated by the number of apartment investments that are four (4) units or smaller. Currently those buildings that contain fewer than 4 units make up 13% of the total number of apartment units, but 74% of the apartment buildings. This large inventory of smaller apartments allows an investor ease of access into the market, more so that competing cities like Phoenix, Las Vegas, Tucson and Denver.

GROWTH

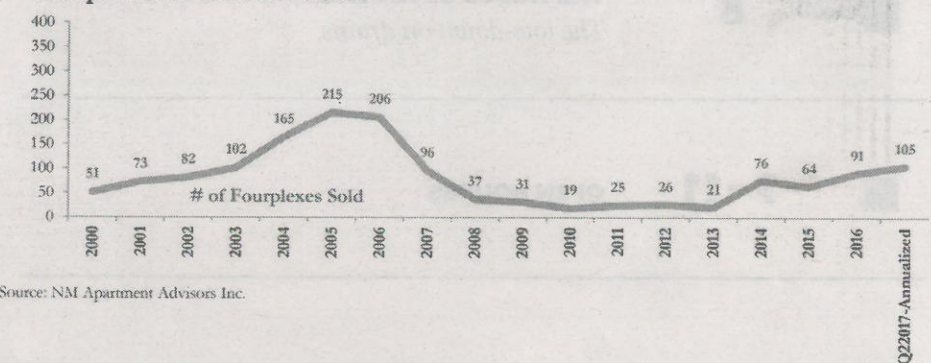
Albuquerque's historical growth trend has allowed it to avoid the volatility of many competing markets that have a boom or bust mentality. Although all real estate is cyclical and often follows national and local economic cycles, the underlying fundamentals of apartment investment have been steadily

improving. The most exciting apartment demand fundamentals are driven by one trend shared by two major demographics, the Millennials and the Baby Boomers.

Millennials, those who are 35 years and younger are choosing to rent 65% of the time, inverting the historical ownership trend where 65% of previous generations preferred to own. These Millennials are looking for locations with high quality social experiences, often found with a walk-score metric. In fact, a recent study by the Apartment Association of NM demonstrated that those communities that scored in the top 10% of walkability, public transportation or biking achieved rents 25% higher than average. The most sought-after submarkets for this generation include Downtown, Old Town, and anywhere with a high number of local brew pubs and craft coffee shops.

The second component of this trend is driven by the Baby Boomer generation, those who are 55 years or older. This generation is starting to downsize, eliminate weekly housing maintenance chores, and desires the same kind of urban experiences preferred by the Millennials. Said another way, they also seek the collection of experiences over the collection of things. In the coming years, look for more and more rental housing that caters to the Baby Boomers by offering the Disneyland clean versions of urban housing in sub-

Fourplex historical sales trends



Source: NM Apartment Advisors Inc.

markets like Uptown and Nob-Hill.

These two generations make up 50% of the current demographic and their increasing demand translates to increased rental levels and leads to higher property values

LADDERING UP

Albuquerque's unique blend of the above two trends has allowed investors to start with a small down payment and grow their portfolio over time. It has experienced investors who started with a fourplex in college who have retired with 200+ unit portfolios, often entirely free and clear of any debt.

FUTURE TRENDS

If we merge the above trends with historical data, we can map the possible

future of apartment investments. This graph shows the number of fourplexes sold on an annual basis since 2000. In that year, there were 51 fourplex sales increasing to 215 by 2005. Mirroring the national economy, the market experienced a significant reduction of sales to 37 in 2008. This trend turned positive in 2014 with an increase to 76 sales and at current levels, it would appear that 2017 could end with over 100 fourplex sales, which is still less than 50% of the last peak in 2008.

In short, whether you are looking for stable cash flow or value add opportunities, it's a good time to be an apartment investor in Albuquerque.

Todd Clarke is CEO of NM Apartment Advisors, an apartment investment brokerage firm and an award winning international instructor for the CCIM institute.