

1/7/2019

Good morning and Happy New Year!

For the first time in three decades of selling apartment investments, I can tell you this was the busiest December for offers and closings.

Market Update from December 2018

I wanted to thank those of you who attended our year end wrap up in early December – If you were not able to make the presentation I have attached it for your review. Key points include:

- ✓ Increase in market activity – double the level of market activity from 2017, and a seven fold increase in downloaded flyers per listing since 2016
- ✓ 4.0% of the total number of apartment investments in NM sold
- ✓ Increases in prices for duplexes, triplexes, fourplexes, marginal increase in 5 to 19 units
- ✓ Decrease in cap rates (one sale at 4.6%, many sales between 5.0% to 6.5%, tougher areas still closer to 8.0%)
- ✓ High demand for new development remains in Santa Fe, Carlsbad, Hobbs and Rio Rancho
- ✓ More 1031 buyers, more interest in direct exchanges, more showcase properties setting new standards for pricing
- ✓ Some interest for offset of capital gains by investing in opportunity zones
- ✓ Excitement over two of the five in F.A.N.G (Facebook, Apple, Amazon, Netflix, Google) – ABQ / Los Lunas landed Facebook/Netflix.
- ✓ More appraisal issues

Recent Closings as a sign of market conditions

There was a flurry of offers and closings at the end of last year and this coming week including:

- 20 unit – newer construction gated community in SE – sold to non-profit – purchase agreement to closing was 7 days – seller carried 15% for a 6.20% Cap rate with some rent upside.
- 1031 buyer all cash buyer – local, exchanged out of mineral interest lease to apartments – 12 units – downtown – all cash at 5.60% cap rate (with upside in rent increases).
- NM based buyer using 401k and all cash– 8 units downtown – 5.30% cap rate with upside in rents/management.
- Owner occupant – high end LEED fourplex – newer construction by UNM – slightly below \$500,000 – 6.0% cap rate – all cash.
- UNM Triplex – first time investor, almost a NINJA loan with 20% down.
- 1031 investors moving out of houses into triplexes (2) – moved from 5.0% cap rates in houses to 6.2% in nice owner/occupant apartments.
- Rio Rancho owner occupant paid premium for fourplex on Vancouver – 5.90% cap rate.
- Portfolio of Los Lunas homes sold to local investor – 7.20% cap rate.

In total, NM Apartment Advisors Closed 24 transactions totaling 684 units, \$34,374,114 with an average cap rate of 6.60%.

Impacts on market / Market Metrics

Fourplex historical sales trends



Although there were 46 fourplexes that did not sell last year (said another way, 66% of what went to market sold last year), the average sold price increased from \$185,729 to \$223,105. For the first time in over a decade, the fourplex market did not experience a short sale/foreclosure, which had previously dragged down the average sales price in the past few years.

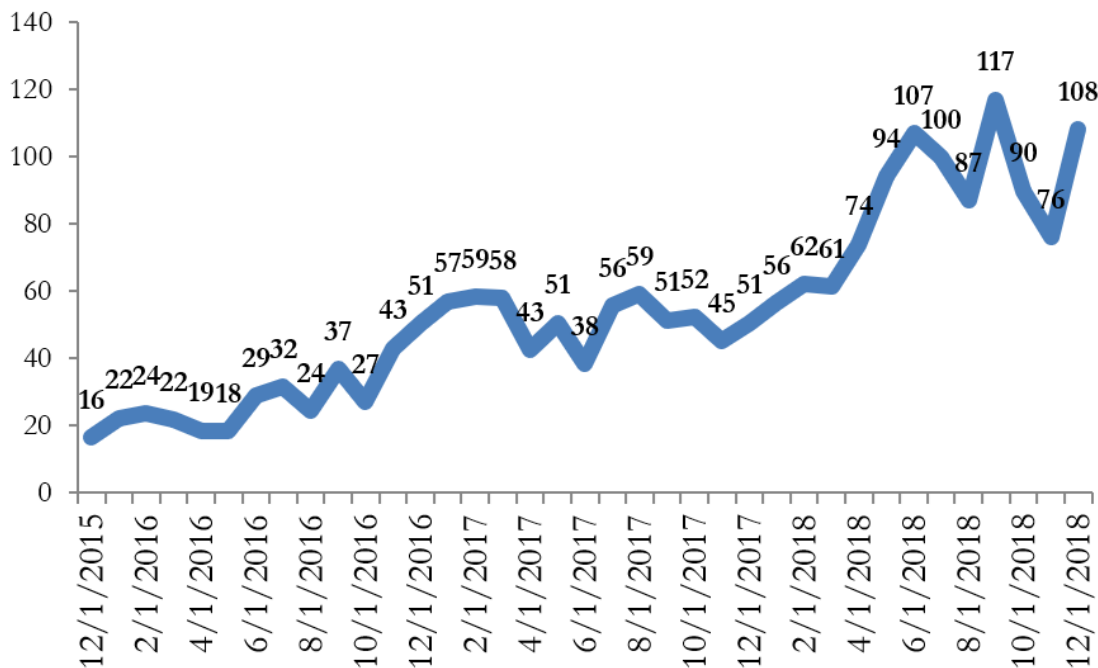
Combine this trend with what the residential single family house community is experiencing (its hard to find a house under \$250,000 – see article at www.nmapartment.com/housearticle for an update on the single family market’s low inventory.

An often posed question I receive from investors is why are we seeing decreasing cap rates (and increasing values), when interest rates were increased four times in 2018. If you are an economic wonk and follow the theory of weighted cost of capital (<https://www.investopedia.com/terms/w/wacc.asp>), you can see the calculation that leads to this conclusion. **What this formula does not take into account is the supply/demand relationship between buyers/sellers. NM Apartment Advisors received / generated over 350 offers on 60 listings, which means that buyer/investors have a 1 in 6 chance of becoming an owner, whereas almost every seller can sell if they choose to. So why hasn't everything sold? It's a balancing act between obtaining the best price, and the fastest closing. While I do not believe cap rates will continue to compress/decrease in 2019, I do believe the current ratio of buyers to sellers will likely lead to a total inventory depletion by end of Q3-2019.**

Marketing Metrics

The graph below demonstrates the number of flyers downloaded per listing from the NM Apartment Advisors website each month. In December 2015, the average number was 15, today its well over 100, and seems on a continual increase.

of Flyer(s) download per listing



Investor Tours / in market

- Coop housing developer looking for 20-30 units – toured last week, still looking
- First time home buyer looking for owner/occupant under \$200,000
- 1031 investor from Oregon – needs price minimum of \$6,500,000
- Developer looking redevelop/hold anywhere in NM
- Colorado based 1031 buyer - \$600,000 + - toured 2 weeks ago, hopes to return in coming weeks

I am also offering a new feature on our website for investors that allows them to reserve a 4 hour tour window of the market. Last year we did dozens of these tours to help educate buyers on the market and where market pricing is.

Below Par Offers

Last week, we were hit with 17 offers from one buyer. This local investor, makes offers 2-3 times a year – to a dozen commercial real estate firms, and sends copies to the brokers clients (yours probably came in the mail). It took us a couple of hours to sort through the offers and summarize them. These offers were on average at 79% of list price, and most involved seller financing (either in first or second position, either way achieving a higher than market leverage for the buyer, while offering interest rates that are 50% below market.) Some of the offers were sloppy, had mistakes (wrong names, or financing terms, when the offer said it was all cash).

Three things to note about these offers:

1. We are in a sellers market, and there is no need to respond to ridiculous offers
2. This is not a reflection of your or your property, but rather the buyer process and attempt to find the one steal of a deal in a large haystack.
3. Although the buyer is a fellow broker, Realtor and has a legal background, the last time I meet with him he felt comfortable that his offers, which are also sent direct to sellers, were legally ok, even though he admits he likely can't close on all of the deals he makes offers on.

In short, I will send you a copy of the offer shortly, but there is no need to respond.

Upcoming events:

- ✓ **Appraisal breakfast** – in order to counteract some appraisal issues we saw last year, we are hosting an breakfast with appraiser to share the latest market info and friends
- ✓ **Apartment Broker Luncheon** – typically this even has 15 or so apartment brokers
- ✓ **Next postcard mailing** is set to go out this week to 5,000 owners, investors, brokers
- ✓ Kahleetah and **I will be visiting family this week in Virginia** – depart Tuesday, return Monday morning – I will be available via email/phone to forward offers/generate counter offers
- ✓ Please hold the date for early evening of February 28th, 2019 – free A to Z of investment benchmarks course and market update

As we get ready for marketing in 2019, please do me two favors:


1. Email me your latest rent roll.
2. As you prepare for filing your taxes – send me a copy of your profit and loss statement or schedule E for 2018 so we can update our numbers.

We will be updating APODs and flyers and making pricing change recommendations based on this new info in late January/early February

My advice this year is similar to last year – look for opportunities to reposition your portfolio into newer (than 1978)/nicer properties with the longest term, lowest interest rate possible.

Despite clouds on the Federal horizon, I remain very excited about the market in 2019 and I look forward to working with you.

Thanks,



Todd Clarke CCIM
CEO
NM Apartment Advisors Inc.

PS – did you catch the email update last month on property taxes and the potential for an increase? If you need details, email me.