

NMAA Client update - NM investment market getting ready for a Lyft - 5/13/2019

Good morning and Happy Spring!

Spring often brings greenery, renewal, allergies and hope. I believe 2019 is going to be a really good year for New Mexico.

Greenery – did you know that the Silicon valley will be growing 6,000 new millionaires in 2019?

It's true, the recent Independent Public Offerings of companies like Uber, Lyft, Slack, and many others are estimated to increase the number of millionaires by the thousands and unleash over \$200 billion of pent up investment in the market place.

If you want to get up to speed on this trend – here are a number of articles on IPO's:

CNN – Uber - <https://www.cnn.com/2019/05/07/investing/lyft-earnings-uber-ipo/index.html>

US News – 9 upcoming IPO's - <https://money.usnews.com/investing/stock-market-news/slideshows/best-stocks-ipo-this-year>

Forbes – 2019 IPO's affecting real estate in silicon valley -

<https://www.forbes.com/sites/nataliakarayaneva/2019/03/11/2019-ipos-affecting-real-estate-in-silicon-valley/>

Wait, so that is good for San Francisco, but how does that benefit us?

After years of working away at their company, for the first time, these employees will be able to cash out and yes, some of them will buy Tesla's, or Bugatti's, or other luxury items, but just as many are going to invest in real estate or their own residence. Many investors in this market are getting priced out with cap rates ranging from 1.5% to 3.5%. They will be spreading their search, pushing past the coastal markets, the volatile Las Vegas/Phoenix market, the overheated Denver market, and they will feel like they are the first ones to discover New Mexico's friendly investment climate. Friendly compared to Oregon's recent rent control, or California's restrictive requirements on how landlords operate their properties.

The last time a major company went public, Google, in 2004, it pushed real estate prices in the bay area up 11%. Do I expect our prices to increase? No. Cap rate compression occurred mostly in 2018, but I do expect every well positioned listing to sell this year.

Wait, what are the chances they will really come here? I have five answers for you:

1. If we were to only get 1% those investors that is still 60 new investors in a market, but I believe are odds are much better than that.
2. Some percentage will buy local houses, freeing those investor's equity up to be reinvested in New Mexico.
3. Name someone you know, who has a kid, friend, nephew, niece, uncle, who has moved from NM to Silicon Valley (in my case, my youngest brother, Scott, works there), and now you know someone who is likely to repatriate their money in their home state
4. I have already had two tours with one investment group (our of bay area, but grew up here), and have another planned for late this week.
5. 1031 exchanges – a fully legal way to pay less federal taxes by reinvesting is a powerful motivator to find a deal, any deal, that makes sense.

What do we need to do to capture this market? Three simple steps:

- NM Apartment Advisors will handle the promotions and weekly investor tours that are pouring in to our market. Currently most of these investors are coming through fellow brokers in Northern California, our website, or directly to us through the national MLS feeds.
- Please have your property ready to market – that means, listed, on the market, with 16+ page flyer with financial analysis, virtual tours, photos, etc as we only have one chance to make a good first impression. I don't have many investors asking for off market, not ready deals.
- Be responsive – if I reach out asking for an updated rent roll or information, know that it means we have an investor who is on the line and has an active interest – our goal is to convert that phone call or email into a property tour, then to making offers, but we need your help in providing the latest information on your property.

After the millionaires, come the Astronauts? Virgin Galactic announced this week that they are moving their operations from the Mojave desert to Spaceport NM in preparation for commencement of their space flights. Its good news for New Mexico's southern economy as Virginia Galactic has signed up 700 potential astronauts at \$250,000 each, which should expose our state to even more investment potential.

Along those lines – if you are one of the lucky space tourists to afford Virgin Galactic – LandRover has a car for you - <https://www.topgear.com/car-news/you-can-only-buy-range-rover-if-youre-astronaut> .

Renewal

I once worked with a broker who accurately predicted 20 of the last 2 economic downturns. That is right, he read the news every day and could capture the essence of why any key headline was going to be the tipping point into a downturn. Fortunately for us, he was wrong 18 of those years, and our economy continued to improve, and investors continued to invest.

I mention this because a fair number of our citizens have become bummed about national politics, trade wars, homelessness, or widely reported violence and latch on to the negative headline grabbing articles like: <https://www.cnn.com/2019/05/09/success/silicon-valley-real-estate-market-home-prices/index.html>

Please know for every local investor who is talking down our market based on these issues, I talk to a dozen of our out of state investors who are very excited to have discovered New Mexico and many of them are motivated by completing 1031 exchanges, which are not as sensitive to economic downturns.

Allergies - Seminar investors continue to pervade our market

NM must be on the hot spot map for a number of investment seminars as we continue to be buried by Seminar buyer phone calls. Look for this trend to continue as those who move from losing money in house flipping (https://www.bloomberg.com/news/articles/2019-05-09/young-real-estate-flippers-get-their-first-taste-of-losing?utm_campaign=news&utm_medium=bd&utm_source=applenews) decide to tackle apartment investments. The presence of these types of investors in the market, sitting behind their desks on the internet, making offers based on flawed information from national listing aggregators, is why we ask every buyer for a buyer resume, or prequal letter and proof of funds. We had two buyers who made offers on our listings last month who were surprised that the seller wouldn't counter until the buyer demonstrated an ability to close. In both cases, it came out that the buyer was hoping to tie the property up, then go raise funds to buy it.

Our office is currently tracking 34 serious buyers in the market looking for product between \$200,000 to \$25M.

May update

- Postcards (attached) went out to 5,000 owners, investors last week – next mailing of new listings is slated for late this month
- Our next monthly Apartment broker luncheon is scheduled for May 23rd at my office. Last months we had a full house and a lively conversation about appraisal issues in the market (as well as exposing your property to these brokers)

I continue to be excited about the market prospects, and appreciate your patience as we wait for the right investor to acquire your property.

I hope you have a great week!

Thanks,

Todd Clarke CCIM CIPs

CEO

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