



NM Apartment Advisors Client Update January 2023

Why tax savvy investors will be bulking up on deals before year's end.

Market Dashboard

Craigslist Avg. rent	\$1,132
Fourplex appreciation since 2017	75.3%
Fourplex appreciation 2022	12.3%
Fourplex appreciation 2017-2022	73.7%
# of active investors in market	1,828
Increase in investor interest since 1st week of pandemic	562%

"I cannot think of the last time when I closed deals where the commercial mortgage interest rate was lower than the residential mortgage rate, but that was very common for Q4-2022."
-Todd Clarke

What does 2023 hold for the apartment investment marketplace?

Happy new years to you and yours!

In times of volatility, it's often hardest to forecast the near future. 2022 experienced a lot of fuel on the volatility fire with inflation and the national economy sending out mixed signals on interest rates, added to the ongoing disruption caused by the war in Ukraine and on-going post covid supply chain issues, it would be easy to cave into the pessimists in the market.

Parallels to 2008?

So is 2023 likely to be a repeat of the 2008 housing meltdown? I do not think so. If you review seven key indicators in the comparison table to the right, you might arrive at the same conclusion that the current market fundamentals are very strong.

Yes, interest rates have increased, but as our September newsletter indicated, most investor's internal rates of return are still

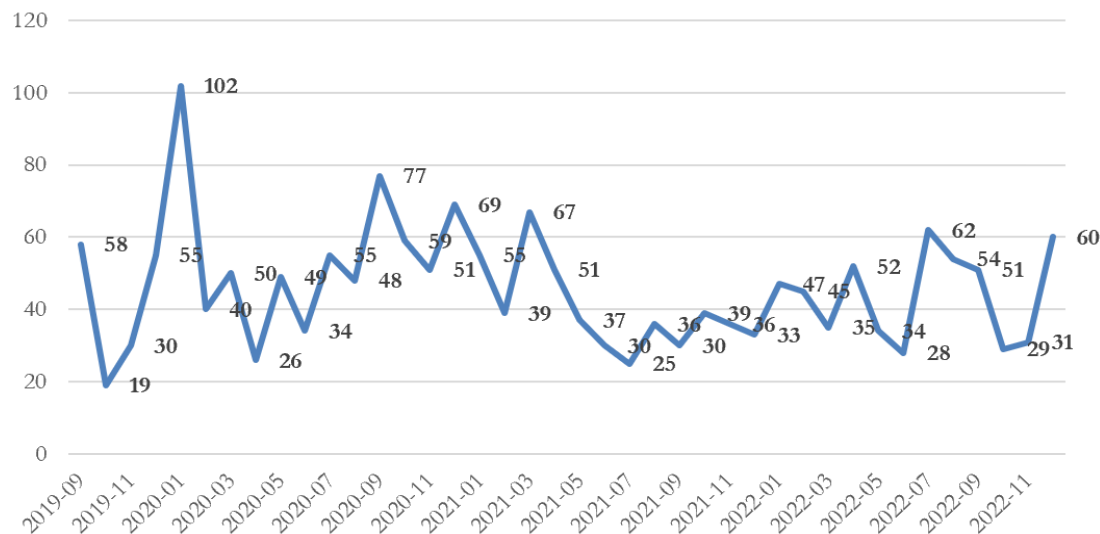
very strong up until just under a 7.0% interest rate.

As a personal example, the fourplex that our family acquired in the case study covered in the November 2022 newsletter, featuring the tax benefits of commercial real estate, achieved a 15.8% internal rate of return at the 3.77% interest rate we closed on, with an interest rate closer to 6.00%, the IRR is still a very attractive 12.20%.

When you layer in the tax benefit of cost segregation and the 100% cost recovery from the 2018 Tax Cut & Jobs Act, the IRR moves from 20.6% at 3.77% interest rate to 15.8% at a 6.00% interest rate.

Said another way, The tax benefit of acquiring in 2023 will trump the detriment of closing with a higher interest rate.

Total Investor contacts by Year/Month



Comparison	2008	2023
Equity Capital in market	Scarce	Abundant
Lending Capital in market	Scarce	Abundant
Trust in market	Scarce post Lehman Brothers failure	High
Housing market was driven by	NINJA loans, derivatives trades and extraordinary push to increase % of home owners	Increasing employment, increasing population and limited new supply post 2008 bubble
Change in lending market:	Within hours	Over a couple of quarters
Labor Market	Abundant- more employees looking for jobs	Scarce - more jobs looking for employees.
Federal Government market intervention	T.A.R.P, injection of Trillions of \$ to stabilize global economy	Reduction of QE2, increase of interest rates.

One additional trend we follow is the average number of investors who reach our to our office in any given month. The graph to the right indicates relatively no change in the quantity of investors. Anecdotal evidence in one on one interviews does indicate the quality of investors been skewed by the return of the every hopeful vulture investor.

Sophisticated investors are balancing what they are experience in other markets vs. the tax benefits of getting another deal done.



When our housing supply growth matches our job growth, only then will housing & rent inflation cool down.

WE NEED YOUR SUPPORT. GET INVOLVED.



The current housing crisis is an issue created by inflation and lack of supply, and once in a generation job growth. While our community welcomes Netflix, Facebook, Amazon and the expansion of Intel, these new jobs, bring new people, who need new housing.



INFLATION IN HISTORY

The last time we saw inflation numbers like those we are seeing currently was from 1972 to 1975 when inflation increased 32%.

Today, the COVID-19 pandemic created supply chain issues and stimulus funds that have made new construction 30% more expensive.



THE OUTCOMES OF RENT CONTROL:

- Hurts small local multi-family owners
- Stops new multi-family development and investment...no one will invest in New Mexico
- Freezes owners' income while expenses rise with worst inflation since 1970
- Units will shift to owner occupied
- Kills construction jobs
- Kills economic development, given no place for new hires to "live"



SUPPLY AND DEMAND

- Faster plan reviews, approvals, inspections
- Short term moratorium for GRT
- Incentives for multi-family development
- Increased multi-family density
- Streamline codes for office conversions
- CNM's "construction labor shortage" program

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JOB/HOUSING NEEDS AS OF 10/6/2022

EBA for Albuquerque Area

F.A.A.(I).N.G. EFFECT	# of New Jobs	Basic	Basic Jobs	Non-Basic Jobs	Total Jobs
Facebook Construction (est.)	500	N		500	500
Facebook Data Center Operations	35	Y	35		35
Fidelity Investments	240	S	106	134	240
Amazon Fulfillment Center – Project Chino	1,500	Y	1,500		1,500
Amazon Sortation Center – Project Nico	200	Y	200		200
Amazon Los Lunas – Project Charlie	600	Y	600		600
Amazon Airport					
Intel Construction	1,000	N		1,000	1,000
Intel Expansion	750	Y	750		750
NBC Universal Studios	330	Y	330		330
Netflix Construction	1,000	N		1,000	1,000
Netflix Production	1,500	Y	1,500		1,500
Lance Industries	70	Y	70		70
LQ Digital	100	Y	100		100
Blue Halo (Additional Jobs Over 260)	64	Y	64		64
MTX Group Inc. (Downtown)	250	Y	250		250
Manna Capital LL	950	Y	950		950
Curia	674	Y	674		674
Vexus Fiber Optic	200	N		200	200
KAFB Space Force	100	Y	250		250
TOTAL	10,063		7,379	2,834	10,213



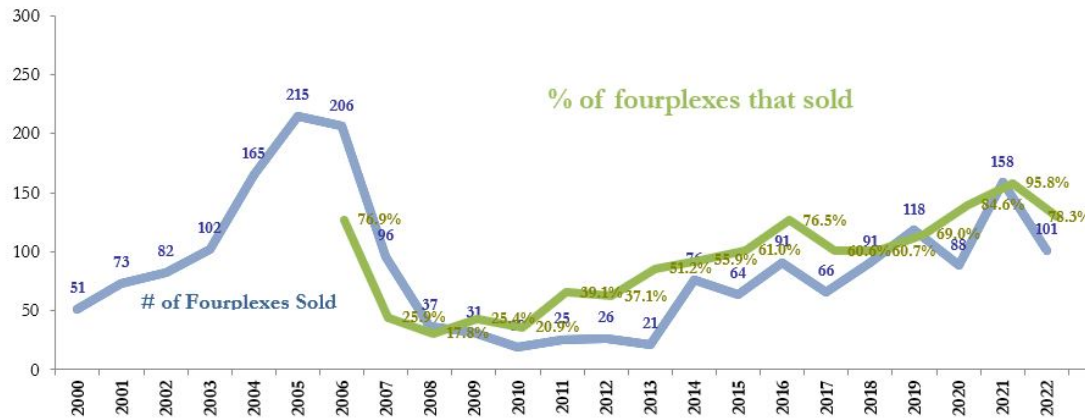
EBM (Bernalillo County)	7.84	1.00	
Total New Jobs	57,848	2,834	60,683
P/E Ratio =			2.17
Total New People			131,681
# Of persons per household			2.52
Total New Households			52,254
% That own			35%
# Of new single-family residences needed			33,965
% That rent			35%
# Of new apartments needed at 100% occupancy			18,289
Occupancy Rate at ideal market balance			95%
# Of new apartments needed at 95% occupancy			19,252
# Of new apartments built in 2020-2022			1,979
NEW Gap			17,273
Total units ABQ/Rio Rancho			91,148
Occupancy in 2019 – # of units occupied at 96%			87,502
# Of vacant units =			3,646
+New Gap+ occupied units – new occupied units			104,775
% Occupancy			115.0%





I share with fourplex investors, the thought, pause today, and next month it will cost you \$9,000 more next month...
D. Todd Clarke

Fourplex historical sales trends

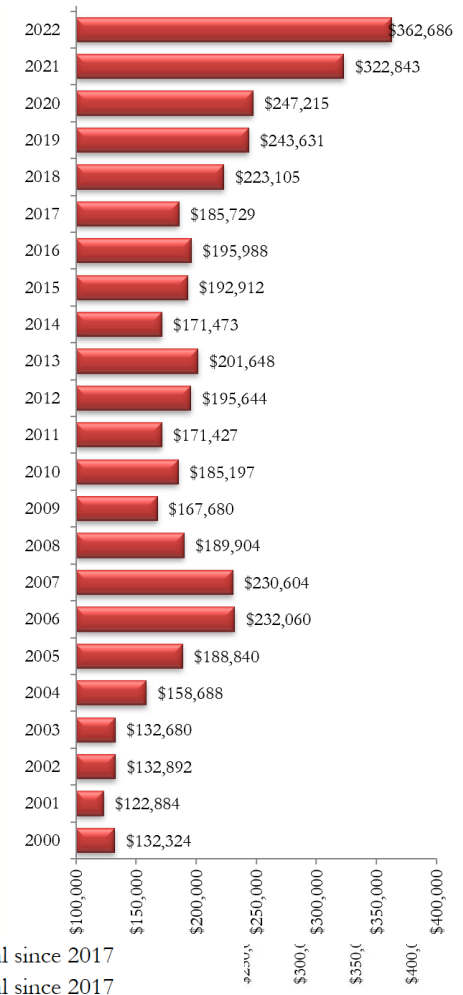


Fourplex market update

Fourplex sales continue to be on an upward trajectory in terms of number of sales, and overall price trends with 73.7% appreciation between 2017 to 2022 and 12.3% appreciation for all of 2022. For the first time since 2016, we have seen a decrease in the number taken to market vs. the number sold.

Year	# of sales	% of REOs or SS in sales	# that did not sell	% of fourplexes on market that sold	% of market >\$200k	% of market >\$300k	% of market >\$400k	% of market >\$500k	% of market >\$600k	Average SOLD price	Median SOLD Price
2000	51				2%	0%	0%			\$132,324	\$129,000
2001	73				4%	0%	0%			\$122,884	\$125,000
2002	82				4%	0%	0%			\$132,892	\$133,000
2003	102				5%	0%	0%			\$132,680	\$138,250
2004	165				13%	2%	0%			\$158,688	\$152,000
2005	215				45%	3%	0%			\$188,840	\$185,000
2006	206		62	76.9%	21%	10%	1%			\$232,060	\$212,450
2007	96	0%	275	25.9%	57%	14%	9%			\$230,604	\$216,500
2008	37	0%	171	17.8%	49%	3%	14%			\$189,904	\$205,000
2009	31	16%	91	25.4%	19%	3%	3%			\$167,680	\$176,750
2010	19	47%	72	20.9%	42%	11%	0%			\$185,197	\$163,000
2011	25	56%	39	39.1%	24%	12%	4%			\$171,427	\$168,000
2012	26	19%	44	37.1%	46%	8%	4%			\$195,644	\$185,500
2013	21	5%	20	51.2%	57%	5%	0%			\$201,648	\$224,000
2014	76	16%	60	55.9%	34%	4%	0%			\$171,473	\$166,250
2015	64	9%	41	61.0%	44%	8%	3%			\$192,912	\$183,250
2016	91	2%	28	76.5%	47%	8%	1%			\$195,988	\$182,500
2017	66	2%	43	60.6%	41%	8%	2%			\$185,729	\$176,920
2018	91	0%	59	60.7%	51%	16%	5%			\$223,105	\$187,000
2019	118	0%	53	69.0%	75%	17%	8%	3%		\$243,631	\$220,000
2020	88	0%	16	84.6%	81%	23%	1%	1%	0%	\$247,215	\$234,840
2021	158	0%	7	95.8%	95%	47%	15%	7%	2%	\$322,843	\$310,000
2022	101	0%	28	78.3%	97%	74%	34%	13%	3%	\$362,686	\$338,000

Average SOLD price



Q1-2023 is likely to be slower for owner occupant fourplex sales as **55% of all** fourplex sales in 2022 were closed using a **VA owner occupant loan**.

Appreciation 2017 to 2018
Appreciation 2018 to 2019
Appreciation 2019 to 2020
Appreciation 2020 to 2021
Appreciation 2021 to 2022

20.1%
9.2%
1.5%
30.6%
12.3%
73.7%

Total since 2017
Total since 2017



Seeding the market for new investors in 2023

Hope for more rental inventory:

“Recently our offer has had an influx of calls from residential owners and brokers asking us to lease their houses as they pivot from selling to holding.”

- Kyle Deacon

Tax Benefits of closing in 2023 and the Impact of interest rates on the after tax IRR. Another look at the 715 Fruit NW fourplex case study.



Sample Case Study: Taxation in CRE

- Straight line Cost Recovery
- Cost Segregation Cost Recovery
- 2018 Changes in tax law under Tax Cuts and Jobs Act



In November of 2022, NMAA recorded a video presentation on the benefits of using cost segregation and the tax cut and jobs act of 2017 to drop the effective

Federal Tax rate from 35% to 0%.

<http://www.nmapartment.com/cretaxbenefits>

This week, NMAA updated that for the 80% benefit investors receive for closing in 2023 which drops your

effective Federal Tax Rate from 35% to 5%.

<http://www.nmapartment.com/cretaxbenefits2023>

Even with higher interest rates, the same investor would be achieving a 15.80% after tax Internal Rate of Return AND they would be able to reduce their effective tax rate to 5.0%

NMAA Marketing Efforts for Q1 to Q2 - 2023

In the interviews I did with investors, brokers and lenders, the most common term I heard for 2022 was fatigue, deal fatigue, pandemic fatigue, work fatigue, work-from-home fatigue, just a general it's been a long hard three years fatigue.

As we negotiated deals in Q4-2022, we experienced a lot more seller/buyer friction and stress than I have seen in recent years. For Buyers it was often the stress of not having done a deal 90 days prior and looking back to where interest rates were in Q2-2023 and for Sellers it was the uncertainty of - is the current buyer the best buyer I will have for my property in the next 90 days.

My interview with local banks and credit unions indicates that Q4-2023 was an opportunity to move funds for lending from the many-year-strong residential home market to the underserved commercial market. This was further evidenced by the number of deals we saw close where the commercial interest rate was lower than the residential interest rate.

The wave of out of state 1031 exchange driven investors continues, but many of them are experiencing deal stress on the property they are selling, and are hopeful, if not insisting on carrying to carry that stress to our market, which is an apples to oranges comparison as they are in often existing markets with rent control, and therefore, a shallower pool of buyers, and entering a market without rent control and a market that as of November, was #1 in the country for rent growth (per Yardi report— <http://www.nmapartment.com/resources/YARDI-MatrixMultifamilyNationalReport-November2022.pdf>)

Knowing the above, NM Apartment Investors will be focusing its marketing time and dollars on creating new local investors with a targeted campaign to high networth people who are looking for tax benefits of owning commercial real estate.

The first mailing campaign to 1,180 dentists across the state of New Mexico will start arriving in those potential investors mailboxes this week.

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