



NM Apartment Advisors Client Update October 2022

Could 120+ investors be wrong about the market?

Market Dashboard

Craigslist Avg. rent **\$1,124**

Fourplex appreciation 2021 **30.6%**

Fourplex appreciation YTD 2022 **12.6%**

of active investors in market **1,703**

Increase in investor interest since 1st week of pandemic **524%**

I share with hesitant fourplex investors, this thought: pause today, and next month it will cost you \$9,000 more... Do not mistake the eye of the storm for a lull in the market - *D. Todd Clarke CCIM CIPs*

Updates on the housing summit and the mad rush to closings before year end.



Attendance for NM Apartment Advisors BID Process tour



NMAA Update Housing Summit

Friday the 16th was the ULI NM housing summit, an event attended by hundreds of people who work in the housing industry with one goal – develop solutions for the housing shortage of over 14,000 rental units in the Albuquerque area. Special thanks to Ventana Fund for hosting the event.

The powerpoint of presentations can be viewed here - <http://www.nmapartment.com/resources/ULI-NM-ABQ-HousingShortage-v6-09142022.pdf>

KOB TV 4 also covered the event - <https://>

www.kob.com/new-mexico/amid-housing-shortage-in-abq-workshop-aims-to-brainstorm-solutions

ULI NM will be releasing a solutions based report in a couple of weeks as well as announcing a follow-up meeting to implement those solutions.

MFA housing summit – construction costs resets

Prior to the ULI NM housing summit – MFA held their week long, once every 2 years event. I hosted one of the panels from developers around the state and the was a lot of focus on the 30% increase in

construction costs for ready to go developments. Even if the supply chain issues get worked out, there was a consensus that the Federal infrastructure bills will lead to increased demand for construction labor and costs of materials. New development projects are coming in between \$300 to \$400/sf and are not likely to change in the near future.



NM Apartment Advisors Client Update

October 2022

Last months newsletter covered why the interest rate increases are not impacting CAP Rates - if you missed out on that, or any of our 33 years of market research you can find them at www.nmapartment.com right below the listings.

Todd Clarke CCIM CIPs
CEO
NM Apartment Advisors Inc.
NMREC License QB#13711
524 Central SW Suite 801,
ABQ, NM 87102
505-440-TODD
tclarke@nmapartment.com
www.nmapartment.com



Interest Rates

Oops. The Fed did it again, it raised rates another 0.75% last week and has indicated it will do additional rate increases again at their November 2nd and December 14th meetings (<https://www.forbes.com/sites/simonmoore/2022/09/22/heres-the-schedule-for-the-remaining-fed-decisions-of-2022-and-what-the-market-expects/?sh=161535d04048>).

Investors have started to realize that while they complained about the last round of rate increases, they also missed out and are starting to engage to get deals closed prior to year end.

Buyer Activity

The following is a good sample of recent buyer activity:

- 701-705 14th NW – two weeks ago we took this amazing fourplex and handyman special house to market – the fourplex at \$483,300 and the house at \$65,000. We had 62 people sign up for the tour, 51 show up (and another half dozen that could not find parking, saw the crowd and decide to pass on being in a bidding war). The house is under contract for a price ~50% over start to an all cash investor who closes this coming week. The fourplex also had multiple bidders who pushed the price up to \$550,000. If fell out of contract over contract negotiations on how to handle inspections and is avail-

able today. (www.nmapartment.com/apt/NMAA-14th701SW.pdf)

401 Dorado Place SE (<http://www.nmapartment.com/apt/NMAA-Dorado401SE.pdf>) went to market at \$225,000 or a cap rate of based on actual current in place rents. This property had 62 people sign up for tour and dozens of offers and is currently in its best and final round. The prices are rapidly closing in near the comparable sales average for that area of \$338,000, which equates to a cap rate of 4.15% on actuals and a potential cap rate of 6.81%

I know fourplexes can be a niche product type, but in working with hundreds of investors in these last two deals, none of them complained about the interest rate increases, but quite a few wondered if we had any more listings like this coming to market. Can over 100 investors be viewing the market wrong?

It's a race

Once the Fed believes they have caught up with Inflation, it is very likely they will bring interest rates back down (likely Q1 or Q2 2023).

Level of 1031 investors

In the interim, investors who benefit from the bonus depreciation that was passed in the 2018 tax act know they need to close before end of year 2022 to benefit. If they wait until 2023, that bonus moves down to

80%, and then in 2024 to 60%. (<https://www.irs.gov/newsroom/new-rules-and-limitations-for-depreciation-and-expensing-under-the-tax-cuts-and-jobs-act#:~:text=The%20bonus%20depreciation%20percentage%20for,2018%20C%20remains%20at%2050%20percent.>)

My experience has been that investors take interest rate increase in stride, while they strongly resist anything that feels like a tax increase (or a tax benefit decrease).

Knowing this, I expect there to be wild rush of activity to get deals under contract and closed by the end of the year.

I will see you at the finish line,
Sincerely,

Todd Clarke CCIM CIPs
CEO
NM Apartment Advisors Inc.

PS - are you trying to decide if you should pay your investments off or leverage and buy more? Email Todd at tclarke@nmapartment.com for a copy of the appreciation spreadsheet tool.