

Albuquerque, NM



Multifamily Housing Update

January 2010

EXECUTIVE SUMMARY

The pace of annual job attrition accelerated to -14,200 (-3.6%) in the second half of the year as additional jobs were lost in the retail, business service and manufacturing sectors. Combined, the sectors cut -10,900 jobs y-o-y in 2H09, following a -5,700-job annual decrease in 1H09. Conversely, net hiring accelerated among education and health service providers as 3,000 positions were added to payrolls y-o-y in 2H09, up from the 2,200-job annual advance in 1H09.

On the other hand, seasonally-adjusted payroll employment trends stabilized in the third and fourth quarters. Metro employers added 400 workers sequentially in 3Q09 and remained unchanged from October to December. By comparison, net job losses totaled -9,200 in 1Q09 and -5,100 in 2Q09.

Results from the December Manpower Employment Outlook Survey suggest that the recovery will weaken in 1Q10. In September, 14% of surveyed firms expected to expand payrolls in 4Q09. By contrast, only 10% of the respondents to the December survey planned to add workers in 1Q10. The share of firms that expected to contract remained unchanged at 11%.

Despite weaker business sentiment, **RED CAPITAL Research (RCR)** foresee positive economic growth in Albuquerque this year. Our econometric model forecasts net job growth of 4,400 (1.1%) in 2010, followed by a robust 12,000 (3.1%) job advance next year. Economy.com are even more bullish, projecting gains of 5,390 (1.4%) jobs and 17,010 (4.4%) jobs in 2010 and 2011, respectively.

Home sales and pricing data reveal that the Albuquerque housing market improved modestly in the third and fourth quarters. According to the

Greater Albuquerque Association of Realtors, the median price of a single-family home fell -5.7% y-o-y in 3Q09 and -4.1% y-o-y in 4Q09. Both of the figures compare favorably to the -8.0% annual decrease in 2Q09. Likewise, single-family sales activity surged 19.7% y-o-y as 4,066 homes sold in 2H09.

Apartment demand stabilized in the third quarter, resulting in a 20 basis point increase in occupancy from 92.8% in 2Q09 to 93.0%. Property managers net leased 65 units and no units came on-line from July to September. Moreover, preliminary Reis data reveal that despite increased supply, occupancy rose 10 basis points to 91.1% in the fourth quarter. **RCR** estimate that positive net absorption totaled 255 units, outpacing the 240 units that were completed in 4Q09.

Rent trends rebounded slightly in the third quarter. The average asking rent rose 0.1% sequentially, following a -0.3% decrease in the previous period. Likewise, effective rent fell -1.0% in 1Q09 and -0.4% in 2Q09, but advanced 0.3% in 3Q09. Based on preliminary Reis data, rents weakened in 4Q09 as the average asking rent fell -0.3% quarter-over-quarter.

Property transaction activity was shallow last year. According to Real Capital Analytics only one investor-grade property changed hands last year, pricing details were not available. A search of national brokerage firms revealed only one apartment listing in January. The two-property portfolio was priced at \$3.3 million, or \$69,922 per unit. Based on the broker's pro forma NOI, the going-in yield was 8.3%.

RCR calculate a 6.3% expected rate of total return, based on an assumed 7.5% cap rate. The metric ranked 11th highest among the **RED** 50.

SNAP SHOT

	Y-o-y change	Projected 2009
Vacancy (7.0% - 3Q09)	↑160bps	↑50bps
Effective Rents (\$667 - 3Q09)	↓1.0%	↓1.6%
Cap Rate (N/A - 3Q09)	↔	↑
Employment (381.4m - 3Q09)	↓14.3m	↓11.6m

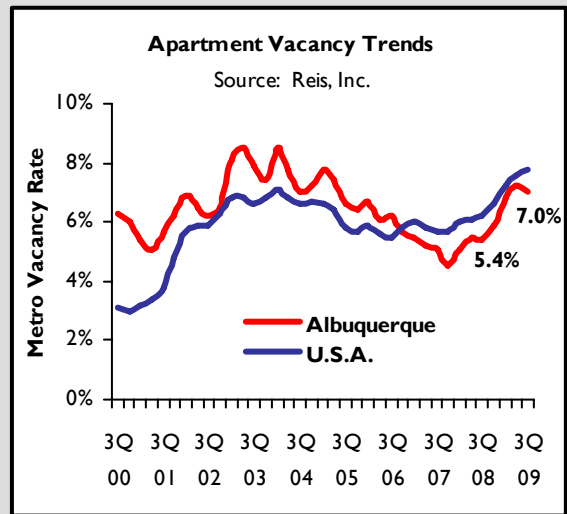
KEY POINTS

- The metro vacancy rate decreased 20 basis points sequentially from 7.2% in 2Q09 to 7.0% in 3Q09. Positive net absorption totaled 65 units and no units were completed during the quarter. By contrast, vacancy rose 160 basis points as supply (198 units) outpaced demand (-403 units) in the twelve-month period ended in September.
- Effective rent fell -1.0% year-over-year to \$667 in 3Q09, due to increased concessions. The size of the average concession package rose from 4.3% of asking rent in 3Q08 to 5.8% in 3Q09.
- Preliminary data reveal that tenant demand (255 units) outpaced supply (240 units) from October to December, resulting in a 10 basis point decrease in vacancy. But asking rent fell -0.3% sequentially, resulting in a -0.4% over-the-year decline.
- The National Association of Realtors estimate that the median price of a single-family MSA home fell -5.1% year-over-year to \$183,500 in 3Q09. Likewise, the Greater Albuquerque Association of Realtors calculate a -4.1% over-the-year price decline from \$182,500 in 4Q08 to \$175,000 in 4Q09.

VACANCY TRENDS

- The metro vacancy rate decreased 20 basis points sequentially to 7.0% in 3Q09, owing to steady tenant demand and limited supply. Positive net absorption totaled 65 units and no units were completed during the period. On the other hand, apartment demand was weak in the preceding nine months as tenants vacated 468 units. Consequently, the metro vacancy rate rose from 5.9% in 3Q09 to 7.2% in 2Q09, before the 20 basis point descent in the third quarter.
- Among the metro’s five submarkets, the Northwest submarket posted the highest positive net absorption in the third quarter. As a result, the submarket vacancy fell 50 basis points to 7.6%.
- Based on Preliminary data, Reis estimate that vacancy improved to 6.9% in 4Q09.

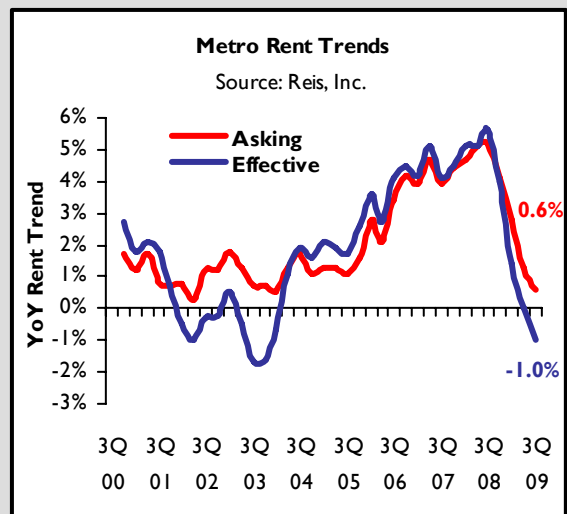
RANK: 23rd out of 50



RENT TRENDS

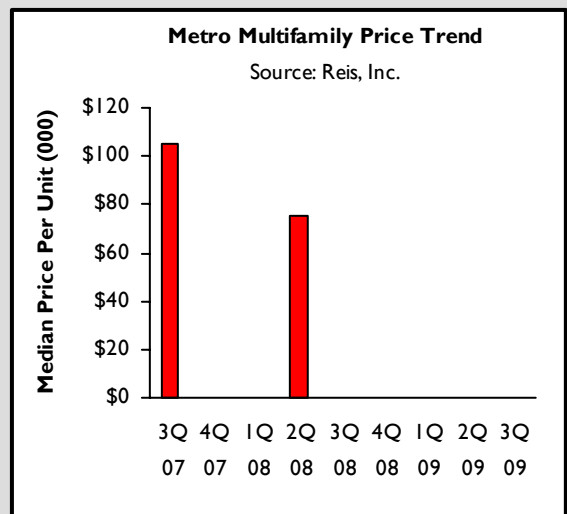
- Despite a 0.3% sequential increase in effective rent, the average figure was -1.0% below the prior year comparison, marking the first annual decline since 1Q04. On the other hand, asking rent gained 0.6% year-over-year as the decrease in effective rent was attributable to rising concessions. The size of the average concession package rose from 4.3% of asking rent in 3Q08 to 5.8% in 3Q09.
- Unlike the metro’s other submarkets, effective rent in the Southeast submarket rose year-over-year, advancing 0.9% to \$587. The largest over-the-year percentage decline was observed in the Northwest submarket as the average effective rent fell -2.6% from \$733 to \$714.
- Preliminary Reis data show that asking rent fell -0.3% sequentially in 4Q09, pushing the annual change to -0.4%.

RANK: 15th out of 50



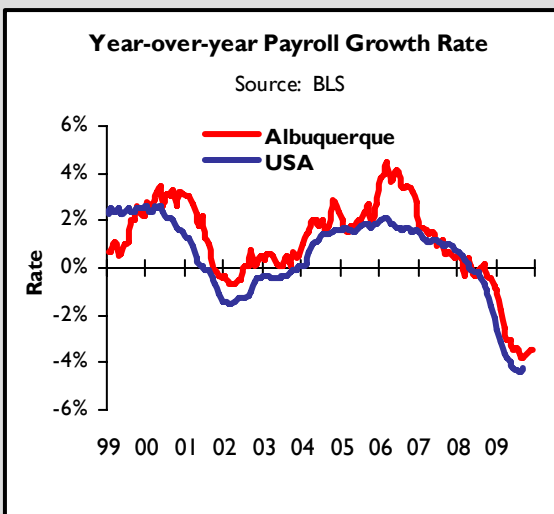
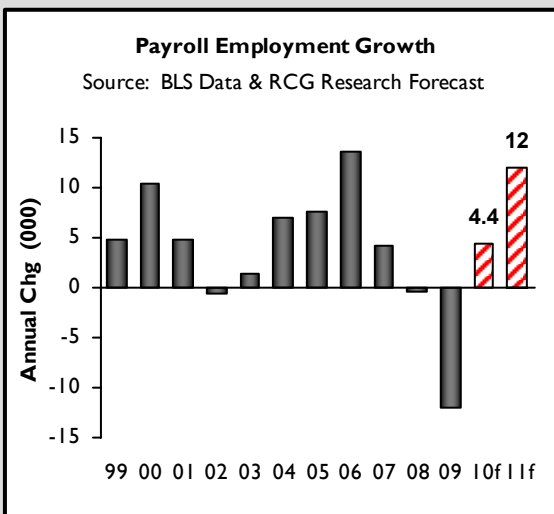
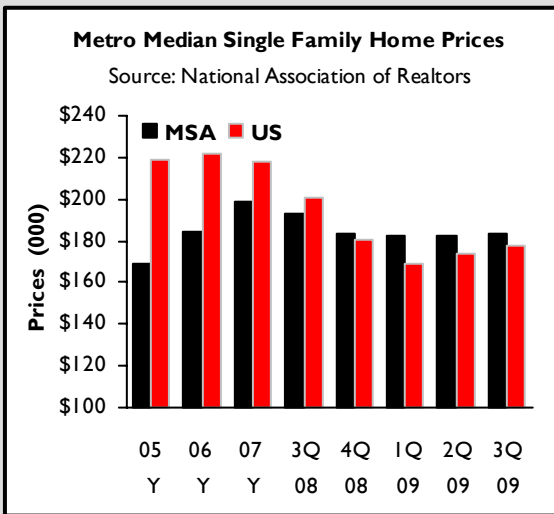
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics count only one investor-grade trade in 2009. The source did not reveal pricing information for the transaction. The source reports that sales volume totaled \$33.4 million and the average price per unit was \$60,945 in 2008.
- **RCR** identify a two-property portfolio for-sale in January. The assets are located in the Southeast submarket and are offered for \$3.3 million or \$63,922 per unit. The listing broker estimate an 8.3% pro forma cap rate.
- Based on an assumed 7.5% going-in yield, **RCR** calculate a 6.3% expected rate of total return, ranking 11th highest in the **RED** 50. Owing to below average historic NOI growth volatility, Albuquerque boasts the 5th highest measure of risk-adjusted return.



NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate



DEMOGRAPHICS & HOUSING MARKET

- Data from the Census Bureau reveal that the population of the Albuquerque metro area increased 1.5% in 2008, down from the 2.1% advance in the previous year. Tactician Corp. forecasts that population will expand by a 1.7% annual rate from 2009 to 2014.
- According to National Association of Realtors, the median price of a single-family MSA home fell -5.1% year-over-year to \$183,500 in 3Q09. Likewise, the metro registered a -5.0% annual decline in the FHFA home price index. Both metrics compared favorably to the US averages.
- Relatively subdued home price depreciation was attributable to below average foreclosure activity. RealtyTrac.com estimate a 0.41% 3Q09 foreclosure rate, ranking 113th among the 203 markets tracked by the source.

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

- Metro payroll headcounts declined sharply in the third and fourth quarters. Following a net decrease of -9,700 (-2.5%) jobs year-over-year in 1H09, employers eliminated -14,200 (-3.6%) positions from payrolls year-over-year in 2H09.
- Deeper cuts among business service firms were largely to blame. The business service super-sector trimmed staffs by -3,700 employees year-over-year in 2H09, worse than the -1,200-job annual decrease observed in 1H09.
- Likewise, manufacturing and retail establishment headcounts fell a combined -4,500 year-over-year in 1H09, and -7,200 year-over-year in 2H09.
- Education and health service establishments, on the other hand, hired workers at a faster rate in the second half of the year. The sectors filled a combined 3,000 positions over-the-year.

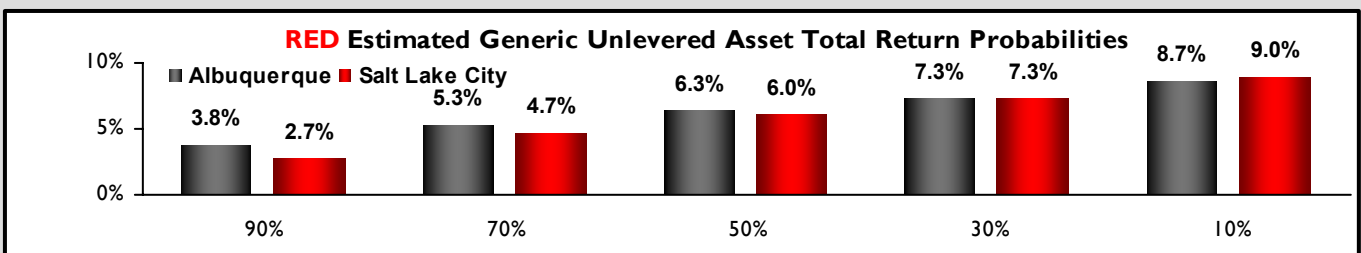
Seasonally-Adjusted

- On a seasonally-adjusted basis, headline payroll employment was relatively steady in the second half of the year. Employers added 400 jobs in 3Q09 and were unchanged in 4Q09, following a -7,200 job average quarterly decrease in 1Q09 and 2Q09.

Forecast

- Year-over-year payroll trends will rebound relatively quickly. Our econometric payroll model predicts that job formation will total 4,400 (1.1%) this year and 12,000 (3.1%) in 2011. Economy.com, by comparison, are more optimistic forecasting growth of 5,390 (1.4%) jobs in 2010 and 17,010 (4.4%) next year.

RANK: 21st out of 50

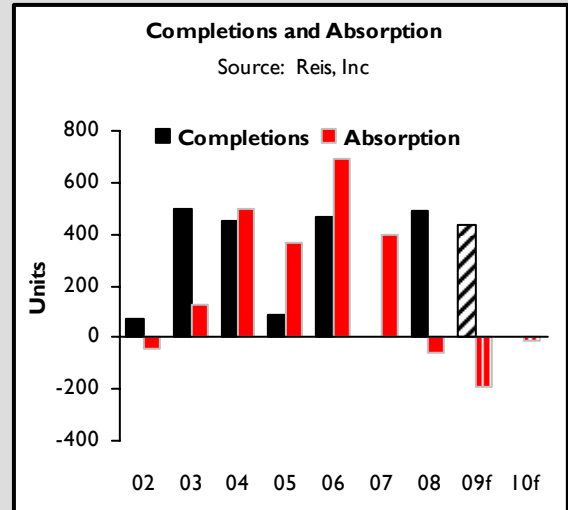


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	3Q08	3Q09	Change	3Q08	3Q09	Change
Downtown / Southwest	\$601	\$599	-0.3%	4.8%	6.8%	200 bps
Northwest	\$733	\$714	-2.6%	6.8%	7.6%	80 bps
North Central	\$649	\$644	-0.8%	4.7%	5.9%	120 bps
Northeast	\$760	\$748	-1.6%	5.4%	6.8%	140 bps
Southeast	\$582	\$587	0.9%	5.3%	8.0%	270 bps
Metro	\$674	\$667	-1.0%	5.4%	7.0%	160 bps

SUPPLY TRENDS

- Developers completed three apartment properties totaling 650 units in 2009. The largest property (240 units) is located in the Downtown / Southwest submarket. The other properties were delivered to the Northwest (212 units) and North Central (198 units) submarkets.
- Reis were aware of one apartment property that was under construction in January. The 88-unit development is located in the Northwest submarket and is expected to open in February. Additionally, 1,408 apartment units were in the planned or proposed phase.
- As of January, two condo properties totaling 145 units were under construction in January. By comparison, only 52 condo units were completed in 2009.
- Multifamily permit issuance plunged -68% year-over-year to 143 units in 2009.



Daniel J. Hogan
Director of Research
djhogan@redcapitalgroup.com
614-857-1416

William T. Hinga
Business Development
wthinga@redcapitalgroup.com
614-857-1499

RED CAPITAL GROUP
Two Miranova Place
Columbus, OH 43215
www.redcapitalgroup.com
800.837.5100



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