MATCHING GLOBAL TRENDS WITH LOCAL VALUES, A NEW MEXICO HOUSING UPDATE

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Today’s Topics

• Growth
  – Employment
  – Land Use
  – Transportation
• Demand Drivers
  – Demographics
  – Talent
  – Technology
• Supply
  – Today
  – Future
**The Short Version:**

- Occupancy is at a decade long high
- Rents are at their highest level (and increasing)
- The ceiling on rents continues to outstrip income growth
- Supply is not meeting demand

- There is a product mismatch between the new rent population and the older housing inventory
- Our zoning code is no longer market competitive (with a few exceptions)

**BRIEF MARKET UPDATE**
**Occupancy**

**Apartment Occupancy**

<table>
<thead>
<tr>
<th>Location</th>
<th>Occupancy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport</td>
<td>95.2%</td>
</tr>
<tr>
<td>Downtown</td>
<td>97.2%</td>
</tr>
<tr>
<td>East Gateway</td>
<td>95.4%</td>
</tr>
<tr>
<td>Fat NE</td>
<td>95.4%</td>
</tr>
<tr>
<td>Ladera Park</td>
<td>94.4%</td>
</tr>
<tr>
<td>Martine NE</td>
<td>94.4%</td>
</tr>
<tr>
<td>North Valley</td>
<td>94.4%</td>
</tr>
<tr>
<td>Rio Rancho</td>
<td>96.7%</td>
</tr>
<tr>
<td>S. Valley</td>
<td>95.5%</td>
</tr>
<tr>
<td>St. Pio University</td>
<td>95.5%</td>
</tr>
<tr>
<td>University</td>
<td>95.5%</td>
</tr>
<tr>
<td>West NE</td>
<td>94.8%</td>
</tr>
<tr>
<td>Albuquerque Mesa</td>
<td>94.6%</td>
</tr>
</tbody>
</table>

Source: Apartment Association of NM

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**Occupancy**

**Summary Analysis (All Units)**

<table>
<thead>
<tr>
<th>Unit Type</th>
<th># Units Responding</th>
<th># Units Vacant</th>
<th>Percent Occupied</th>
<th>Average # of Occupants</th>
<th>Average Base Market Rent</th>
<th>Average Base Market Rent/Sq Ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Units</td>
<td>32,985</td>
<td>2,003</td>
<td>94.11%</td>
<td>809</td>
<td>$718</td>
<td>$0.89</td>
</tr>
<tr>
<td>EFF</td>
<td>164</td>
<td>6</td>
<td>98.34%</td>
<td>205</td>
<td>$420</td>
<td>$2.07</td>
</tr>
<tr>
<td>STU</td>
<td>2,276</td>
<td>133</td>
<td>94.16%</td>
<td>439</td>
<td>$462</td>
<td>$1.03</td>
</tr>
<tr>
<td>1BR/1BA</td>
<td>14,317</td>
<td>721</td>
<td>94.09%</td>
<td>657</td>
<td>$544</td>
<td>$0.87</td>
</tr>
<tr>
<td>1BR/1.5BA</td>
<td>7</td>
<td>1</td>
<td>95.71%</td>
<td>1,240</td>
<td>$500</td>
<td>$0.65</td>
</tr>
<tr>
<td>1BR/2BA</td>
<td>58</td>
<td>1</td>
<td>98.26%</td>
<td>648</td>
<td>$551</td>
<td>$0.84</td>
</tr>
<tr>
<td>2BR/1.5BA</td>
<td>463</td>
<td>21</td>
<td>95.46%</td>
<td>870</td>
<td>$523</td>
<td>$0.94</td>
</tr>
<tr>
<td>2BR/1BA</td>
<td>5,057</td>
<td>314</td>
<td>93.70%</td>
<td>860</td>
<td>$715</td>
<td>$0.83</td>
</tr>
<tr>
<td>2BR/2BA</td>
<td>9,097</td>
<td>577</td>
<td>93.90%</td>
<td>991</td>
<td>$636</td>
<td>$0.63</td>
</tr>
<tr>
<td>3BR/2BA</td>
<td>118</td>
<td>4</td>
<td>98.56%</td>
<td>1,298</td>
<td>$1,083</td>
<td>$0.83</td>
</tr>
<tr>
<td>3BR/3BA</td>
<td>143</td>
<td>10</td>
<td>93.01%</td>
<td>1,094</td>
<td>$775</td>
<td>$0.71</td>
</tr>
<tr>
<td>3BR/4BA</td>
<td>33</td>
<td>0</td>
<td>100.00%</td>
<td>1,186</td>
<td>$596</td>
<td>$0.81</td>
</tr>
<tr>
<td>3BR/2.5BA</td>
<td>2,509</td>
<td>178</td>
<td>92.81%</td>
<td>1,165</td>
<td>$940</td>
<td>$0.81</td>
</tr>
<tr>
<td>3BR/3.5BA</td>
<td>53</td>
<td>6</td>
<td>98.05%</td>
<td>1,590</td>
<td>$1,056</td>
<td>$0.69</td>
</tr>
<tr>
<td>3BR/4.5BA</td>
<td>50</td>
<td>17</td>
<td>99.04%</td>
<td>1,460</td>
<td>$678</td>
<td>$0.46</td>
</tr>
<tr>
<td>3BR/5.5BA</td>
<td>4</td>
<td>0</td>
<td>100.00%</td>
<td>1,064</td>
<td>$1,050</td>
<td>$0.99</td>
</tr>
<tr>
<td>4BR/5.5BA</td>
<td>122</td>
<td>4</td>
<td>96.72%</td>
<td>1,134</td>
<td>$555</td>
<td>$0.76</td>
</tr>
</tbody>
</table>

Source: Apartment Association of NM
Rents

<table>
<thead>
<tr>
<th>Type</th>
<th>Avg. Rent per month for all apartments (USD)</th>
<th>Avg. Rent for December (USD)</th>
<th>Rent Diff (USD)</th>
<th>Yes or No</th>
<th>Year-end Avg. Rent for properties built 2000 or later (USD)</th>
<th>Rents for December (USD)</th>
<th>Highest Rent (USD)</th>
<th>Highest Rent (USD)</th>
<th>Rents on the rise to highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>$117</td>
<td>$112</td>
<td>$0</td>
<td>Higher</td>
<td>$118</td>
<td>$118</td>
<td>$220</td>
<td>$280</td>
<td>$280</td>
</tr>
<tr>
<td>1 bdrm</td>
<td>$992</td>
<td>$992</td>
<td>$0</td>
<td>Higher</td>
<td>$1,046</td>
<td>$1,090</td>
<td>$1,145</td>
<td>$1,259</td>
<td>$1,280</td>
</tr>
<tr>
<td>2 bdrm</td>
<td>$1,280</td>
<td>$1,280</td>
<td>$0</td>
<td>Higher</td>
<td>$1,280</td>
<td>$1,280</td>
<td>$1,280</td>
<td>$1,280</td>
<td>$1,280</td>
</tr>
<tr>
<td>3 bdrm</td>
<td>$1,393</td>
<td>$1,393</td>
<td>$0</td>
<td>Higher</td>
<td>$1,393</td>
<td>$1,393</td>
<td>$1,393</td>
<td>$1,393</td>
<td>$1,393</td>
</tr>
</tbody>
</table>

Rents on the rise

<table>
<thead>
<tr>
<th>Type</th>
<th>Change in average rent 2010 to 2011</th>
<th>Change in maximum rent 2010 to 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>9%</td>
<td>17%</td>
</tr>
<tr>
<td>1 bdrm</td>
<td>8%</td>
<td>20%</td>
</tr>
<tr>
<td>2 bdrm</td>
<td>7%</td>
<td>17%</td>
</tr>
<tr>
<td>3 bdrm</td>
<td>11%</td>
<td>35%</td>
</tr>
</tbody>
</table>
Current Supply

• Avg. Albuquerque Apartment was:
  – Built in 1965
  – Master metered
  – Furnished
  – Overparked

Is that a problem?

GROWTH
The Future is already here, just unevenly distributed – William Gibson

Emerging Trends 2012

- Multifamily:
  - It almost doesn’t matter what part of the country... interviewees are “gaga” over apartments buy:
    - Class A
    - Value enhanced B
    - Develop from scratch
    - Purchase in in-fill
    - Acquire in gateway markets
    - Even buy Class C and upgrade
    - BUY BUY BUY
    - In all market except those with a glut of single family

Turn in Market driven by cities that:
- Are recruiting creative class
- Are walkable
Emerging Trends 2012 Apartment

- 2008 to 2010 dynamics – increased apartment occupancy, rents and value
- Gateway cities or cities with tech/energy

Turn in Market driven by cities that:
- Are recruiting creative class
- Are walkable
Albuquerque Multifamily

Message:
- NM is not open for business

Albuquerque

How do we measure up:
- Scored 4.43 (poor)
- Walkable score = 89 (high)
The 2035 Forecast

- 668,000 new people
- 310,000 new homes
- 210,000 new jobs

Source: Mid-Region Council of Governments of New Mexico

Central New Mexico’s Growing Presence within the State

The forecast is for a continued return to metropolitan areas.

Source: Mid-Region Council of Governments of New Mexico
# Growth Outlook by County

<table>
<thead>
<tr>
<th>Region</th>
<th>2008 Population</th>
<th>2035 Population</th>
<th>Numeric Growth</th>
<th>Pace of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>MRCOG Region</td>
<td>883,901</td>
<td>1,552,125</td>
<td>668,224</td>
<td>75.6%</td>
</tr>
<tr>
<td>Bernalillo County</td>
<td>649,916</td>
<td>1,037,719</td>
<td>387,803</td>
<td>59.7%</td>
</tr>
<tr>
<td>Sandoval County</td>
<td>127,928</td>
<td>309,356</td>
<td>181,428</td>
<td>141.8%</td>
</tr>
<tr>
<td>Torrance County</td>
<td>17,923</td>
<td>27,836</td>
<td>9,913</td>
<td>55.3%</td>
</tr>
<tr>
<td>Valencia County</td>
<td>77,545</td>
<td>160,532</td>
<td>82,987</td>
<td>107.0%</td>
</tr>
<tr>
<td>Southern Santa Fe</td>
<td>10,589</td>
<td>16,682</td>
<td>6,093</td>
<td>57.5%</td>
</tr>
</tbody>
</table>

Region level forecast developed by UNM-GPS. County level forecast by MRCOG based on land use constraints, plans, and policies.

Source: Mid-Region Council of Governments of New Mexico

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**Maps:**

- **2008**
- **2035**

Source: Mid-Region Council of Governments of New Mexico
Demand drivers for apartments going forward

Transportation
Talent / Tolerance (demographics/household formation)
Technology

Transportation
• Driver of urban, economic and social change:
  – 18th century – seaports
  – 19th century – railroads
  – 20th century - airports

• The “AeroTropolis” was ranked amongst top 10 ideas that will change the World by

AeroTropolis: They way we will live next
- Greg Lindsay

Transportation

space required to transport 60 people

| car | bus | bicycle |
Pent up Demand 1 apartment unit per 10 people

- Rio Rancho – underserved by 4,600 units
- Albuquerque – needs 1,350 units a year
- Los Lunas – underserved by 796 units

Volume to Capacity 2008 & 2035
Public Involvement - Solutions

Mini-Survey Results

Source: Mid-Region Council of Governments of New Mexico

Select areas for compact residential development

High Use and Potential Transit Corridors & Stations

Source: Mid-Region Council of Governments of New Mexico
Then, develop at maximum allowable residential densities

Does better land use planning move the needle?

**Daily Impact**
- Vehicle Miles Traveled down 1.3 Million
- 50,000 fewer River Crossings

**PM Peak Hour Impacts**
- Vehicle Hours of Delay down 25%
- Speeds up 17%

Source: Mid-Region Council of Governments of New Mexico
Apartment Supply - Downtown

Talent / Lifestyle & Tolerance for the creative class
Where will this growth come from?

- For the economy to grow faster than the population we need to look to:
  - Small business
  - Innovators
  - Immigration
  - Adding economic tools to recruit Businesses of “1” those from the creative class

E > P

Creative Class

- Over a third of all jobs
- Fastest growing segment of workers
- Knowledge based workers

Creative class looks for:
- Talent
- Tolerance
- Technology
Demographics

- Competing Renters
  - Baby Boomers
  - Millennials or Gen Y’ers
- Competing for same rental pool
- But different product

And one other?

Baby Boomers - Lifestyle

- “Me” generation
- Greatest generation of in terms of wealth
- Wealth = home
- Large “collection”
- Focused on health and longevity
- Spatial mismatch of housing
- Wants large 1 bedroom residence
- Active Traveler

- Was told “ask not what your country can do for you but what you can do for your country”
Baby Boomers – typical Resume

Resume of D. Todd Clarke

Community oriented

Millennials leaders of transformative change

- The top 10 jobs in 2010 didn’t exist in 2004
- 10 to 14 different jobs before 38
- 20% of their college education was irrelevant by the time they graduated
- 12%+ met their spouse online
### Millennials - lifestyle

- Lives out of a backpack
- Never knew a day without Google
- Asks Facebook friends for advice
- Pursues experiences more than “things”
- Needs constant feedback
- Multitasking (crams 28 hours into a 24 hour day)
- Has more tie to Facebook than their country
- Asks their employers “what can you do for me?”
- Marries later
- More likely to stay at home with parents (see Jim’s slide of pph at 2.69)
- Highly transient
- Not likely to buy homes
- Cares about global more than local

### Typical Millennial:

- Grew up with Harry Potter
- Has always had GPS
- Knows gas stations for the cappuccino, not for fixing flats
- Have always been concerned about multiculturalism
- The Tonight has always been hosted by Jay Leno
- Have always had access to charter schools
- The video game generation – needs constant feedback

Source: Beloit Mindset list 2012
Millennial Typical Resume

Millennial housing

- Lego generation
- Ikea Generation
- Green Generation
  = Cube, function, flexible, scale able, and recyclable
What they share

- Less is more
- More = Adventure/Experience
- Quality of Living
- Downsizing
- Travel
- They don’t want to share the same residence

Both are the new creative class

- Technology
- Music and pop culture
- Liberal leanings
- Superior intelligence
- Clothing

And what they don’t -their defining qualities
A Third wave- Immigrants?

- Could change demand for housing
- Current US policy is opaque
- More PhDs outside of USA than inside
- Housing lifestyle matches ours from 1980 to 2000 (i.e. big house)

Technology
Technology

• Driver = Moore’s Law

• Where does Moore’s law place technology in 5 years?

• Where does Moore’s law place storage in 5 years?

  = we will be able to do more with less

  = By 2049 one $1,000 computer will have more processing power than the combined human race

iPod = intersection of design with tech
Has moved away from the engineers specifications, to a product designed by humanists
- Consumer driven
- Value Add
- Will soon grow so small it will disappear

Technology

Information is being sliced, diced, processed and regurgitated to us from multiple mediums
QUESTION?

• Where is the iPhone / iPad of housing?
• Do our planned communities actually encourage community?
• If the answer is NO, we are going to lose the hearts and minds of the creative class

What is the new product?
Idea #1: Live / Work

“…”

-I think we could Build these all day long”

- Mark Allison

Idea #2: Live / Learn

Unique design and location, top rents
Idea #2: Live / Learn / Party

• Lobo Village – 848 Beds or 242 “quads”

• Enviable public/private partnerships

Idea #3: Live / Shop

“this property out performed the market by $0.50/sf and the consultant’s pro-forma by 20%”

Superior design and location, top rents, top sales price
Idea #4: Live / Leave

Broadstone Town Center
• Closest housing to Mesa del Sol’s 2,000 jobs
• High income renters

Idea #4: Live / Leave / Green

“Leased ahead of schedule – market rate and under 30% of income units leased first”
- Developer/Owner
Idea #5: Live / Leg up

Homeless census 2011
- 700 people
- 475 completed survey
- 252 highly vulnerable

- 75 most vulnerable, 53 years old, average homeless period 20 years
- costs society more for someone to live on the street than it does to house them.
- 47% victims of violent attach since homeless
- Our community wants to ensure homelessness is rare, short-lived and non-recurring.

When housed, people use emergency services less frequently, thus, freeing these services up to help even more people - #1 most vulnerable est. health care cost 2010 = $138,750 vs. apartment at $15,275

We want to live in a community where homelessness is rare, short-lived and non-recurring.

75 units committed by private sector, pressing needs for 400 more in a central location.
Idea #6: Live / Live Longer

- TBB: Baby Boomers
  - Original generation to find a guru
  - Healthy eating
  - Preventive health care
  - Concerned about extending lifespan and beauty span
  - Will not tolerate today’s senior housing as that is “where the old folks live”
  - Wants intellectual stimulation long after physical stimulation has retired
  - Ask yourself, Where would Steve live?

Wellness, preventive, but cool healthcare

Ideas

- idea communities = ideal communities
  - Live / Work
  - Live / Leave / Green
  - Live / Shop
  - Live / Learn
  - Live / Leg up
  - Live / Live Longer

- idea communities = niche

- unfortunately the herd mentality of lender’s encourages SAMENESS
Build into the Niche, find the gap

- Lenders don’t want to hear this
- Developer’s looking for new lender’s
- The niche product is outperforming the market product by 2 to 1
- Any location is not always the best location – focus on walkability, activity, internet, and access to transportation (V4H)

Biggest Challenge

Financing - the herd mentality of lender’s encourages SAMENESS
Top 5 to-do list for New Mexico:

• #1 – GROW JOBS! Cater to the creative class
• #2 – up the density, reduce the parking, and push back on the fire code and/or pull down obsolete inventory (or provide mechanism to do so)
• #3 – put $ behind infill (if you really want it)
• #4 – educate the lenders to avoid the lemming dance
• #5 – define what it means to be a New Mexican (or Albuquerquean)

Q&A
Technology is bringing Green to the consumer

- Building Efficiency
- Building redundancy
- Building Efficiently
- Backup water (harvesting)
- Backup electricity (solar / wind)
- Longer life span
- More recyclable material
- Housing efficiency metrics available to owner

Technology is causing innovation

We will see more innovation in housing in next 10 years, than the last 100
Smart Cities

Just in Time to deliver Better, Faster, Healthier
What happens if we use technology to model

<table>
<thead>
<tr>
<th>Type</th>
<th>Subtotal</th>
<th>Sub Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 Bedrooms</td>
<td>$66,000</td>
<td></td>
</tr>
<tr>
<td>3 Bathrooms</td>
<td>$30,000</td>
<td></td>
</tr>
<tr>
<td>2 Living Rooms</td>
<td>$60,000</td>
<td></td>
</tr>
<tr>
<td>1 Dining Room</td>
<td>$13,000</td>
<td></td>
</tr>
<tr>
<td>1 Kitchen</td>
<td>$30,000</td>
<td></td>
</tr>
<tr>
<td>1 Garage</td>
<td>$10,000</td>
<td></td>
</tr>
<tr>
<td>1 Pool</td>
<td>$20,000</td>
<td></td>
</tr>
<tr>
<td>Lot</td>
<td>$45,000</td>
<td></td>
</tr>
</tbody>
</table>

Soft Costs
- Damage
- Interest Carry
- Renting Wall
- Prizes
- Sales Tax
- A & E
- Tax
- Impact Fee's
- Roads
- Off sites
- Util. Hookups
- NGA 30%

Additional
- Developer Profit
- Commission
- Closing Fee

Total $357,321

If we make incremental changes in:
- Setbacks
- Road widths
- Parking requirements
- Density
- Lot sizes

TRANSFORMATIVE CHANGE

To:
Efficient Land Usage

- Increasing density by elimination of unused portions of land

<table>
<thead>
<tr>
<th>Zoning</th>
<th>Maximum Density</th>
<th>Maximum Density with conditional use</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-2</td>
<td>24</td>
<td>30</td>
</tr>
<tr>
<td>R-3</td>
<td>30</td>
<td>36</td>
</tr>
</tbody>
</table>

8 fourplexes on 1.3474 acres 23 units to acre

9 fourplexes on 1.2397 acres 29 units to acre 26% more efficient
Efficient Land Usage

- Increasing density by elimination of unused portions of land

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<td>R-3</td>
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</tr>
</tbody>
</table>

Uncapping density

- Reconsider parking requirements
- Reconsider height restrictions
- Reconsider setbacks
Uncapping density – Financial Model

- Remove density restriction
- Makes the land under obsolete product worth as much as the improvements
- Increases sales tax revenue
- Increases property tax revenue
- Increases jobs!
- Better design
- CPTED Friendly

Why now:

- Aging inventory (avg. 1965)
- Wave of foreclosure fourplexes
- Unprecedented fires
- Low interest rates
- No cost to tax payer
- Bootstrap our way our of down economy
What we need

LESS:
• Consumption based economy
• Space
• $  
• Gas
• Social policy

MORE:
• Innovation
• Scale
• Mobility
• Design
• Flexibility
• Ability to move quickly

Have you done SWOT for your community?

Strengths:
- Well located airport - Aerotropolis
- Talent (more PhDs per capita)
- Tolerance (look at GAP relocation)
- Technology (Sandia, tech transfer, home of Microsoft, etc.)
- Central location
- Quality of living

Weaknesses:
- Lack of long term vision
- Lack of long term planning
- Lack of inventory of buildings, sites, land
- Incessant politics / fueled by nay sayers that leads to never trying

Opportunities:
- BHAG’s
- Long term vision
- Transformative change

Threats:
- Any town in TX, AZ, OK, or NV
- That can rally their people
Top 5 to-do list for New Mexico:

• #1 – GROW JOBS! Cater to the creative class
• #2 – up the density, reduce the parking, and push back on the fire code and/or pull down obsolete inventory (or provide mechanism to do so)
• #3 – put $ behind infill (if you really want it)
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Respite

Q&A
Question to Consider / Big Picture

- What do you see as the biggest challenges and opportunities facing the industry going forward?
- Housing (single- and multi-family)
  - The report says technology will reshape workplaces. How do you think technology will reshape homes?
  - Do you anticipate that the tastes of Generation Y, now in their teens through early thirties, will change as they age, becoming more like the tastes of their predecessors? In other words, are they likely to want a traditional suburban house on a quarter-acre as they move into their thirties and forties?
- Is the current concept of development for active adults, including its 55-plus age restriction, becoming obsolete because of its expense or changing tastes? How do you see senior housing changing?
- Will the majority of apartment development be at the high end, or will it be possible to build to the budget of moderate-income singles and families?
- Will significant numbers of very large suburban homes be rezone as multi-family housing? Are they likely to be sought after by extended families? Or will the suburbs and their zoning authorities and homeowner associations resist such change?
- Real Estate Finance
  - Given the long lead time of real estate development, is it more difficult to obtain financing for a project that anticipates demand—say it’s attuned to the tastes of Generation Y or to retiring Baby Boomers who have less money than they expected—than when developers are building to accommodate today’s market demands—or even yesterday? Do lenders inhibit change?
  - Will private-sector developers and sources of capital be engaged more frequently for infrastructure development? Will money be available to fund the infrastructure necessary to support development?
  - Do you anticipate the U.S. being the source of development capital for Europe and Asia or is the capital flow likely to come into the U.S. from abroad?
  - Will mixed-use developments be more or less difficult to finance than they are today, given anticipated market trends?
- Commercial/Office Development
  - Do you see opportunity for American investors and developers in the radical urban transformation going on in Asia? What are the greatest impediments or risks?
  - Can developers make acceptable profits if office tenants decrease leased space per employee? Will tenants increase their demand for amenities and will that make it more or less difficult to get a project designed, financed, built and leased?
  - What importance will developers really give to energy?

Where do you get data from?