

Albuquerque, NM



Multifamily Housing Update

July 2010

EXECUTIVE SUMMARY

Measured on a year-over-year basis, payroll employment trends in the Albuquerque metro area bottomed in 3Q09 as -19,000 (-4.8%) positions were eliminated from payrolls. Since then, the pace of annual job attrition decelerated to -13,500 (-3.4%) in 4Q09, -8,100 (-2.1%) in 1Q10, and -5,200 (-1.4%) in 2Q10. Likewise, total employment -- from the BLS's household survey -- declined at a -0.5% y-o-y rate in May, the slowest drop since October 2008. As a result, the metro unemployment rate eased to 8.2% in May, down from a high of 9.1% in March.

Area manufacturers contributed to the turnaround. Local manufacturing companies eliminated -3,400 jobs y-o-y in December but trimmed only -700 positions from payrolls y-o-y in June. Similarly, wholesale trade establishments added 600 workers y-o-y in June, marking the fourth consecutive advance. By contrast, sector payrolls were stable or declining in each of the previous 24 months.

Seasonally-adjusted payroll data show that employers cut -5,200 jobs in the first six months of 2010, weak in comparison to the 0.7% increase observed nationally. But data from the June Manpower Employment Outlook Survey suggests that seasonally-adjusted trends will improve in the third quarter. Specifically, the share of firms that plan to hire workers surged from 8% in March (reflecting 2Q10 hiring plans) to 18% in June. Furthermore, fewer companies expected to cut staffs (6%) in June as compared to the previous survey (10%).

RED CAPITAL Research (RCR) expect payrolls trends to rebound next year, following a -3,100 (-0.8%) job decrease this year. Net job formation is forecast to total 7,100 (1.9%) in

2011 and 11,700 (3.0%) jobs in 2012. Economy.com are more optimistic, projecting gains of 9,530 (2.5%) jobs in 2010, 15,090 (3.9%) jobs in 2011 and 20,230 (5.0%) jobs in 2012.

Home prices declined but sales velocity increased in the second quarter. According to the Greater Albuquerque Association of Realtors the median price of a single-family MSA home decreased -2.5% y-o-y to \$178,500. The source counts 2,200 single-family home sales from April to June, up 20.6% from 1,825 sales in the same period of 2009.

No apartment projects were delivered in the first quarter, following a quarterly average of 163 units completed in 2009. Property managers took advantage, leasing 158 units from January to March. As a result, the metro occupancy rate rose 50 basis points sequentially to 93.6%. Additionally, preliminary Reis data show that occupancy rose 10 basis points to 93.7% in 2Q10 as demand (134 units) outpaced supply (88 units)

Despite occupancy improvements, rent trends remained weak in 1Q10. The average effective rent was unchanged sequentially and down -0.1% y-o-y to \$667. Conversely, the average asking rent surged 0.6% sequentially to \$709 in 2Q10, following a -0.1% decrease in the previous period.

Real Capital Analytics were aware of one closed transaction involving properties priced at or above \$1 million in the twelve-month period ended in June. The property sold for \$11.7 million or \$61,905 per unit in December. **RCR** calculate a 6.7% expected rate of total return for generic Albuquerque assets, ranking 36th highest among the **RED** 50. Conversely, the market boasts the 15th highest measure of risk-adjusted return in the group.

SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (6.4% - 1Q10)	↓ 40bps	↑ 20bps
Effective Rents (\$667 - 1Q10)	↓ 0.1%	↑ 0.6%
Cap Rate (N/A - 1Q10)	↔	↔
Employment (371.6m - 1Q10)	↓ 8.1m	↓ 3.1m

KEY POINTS

- The metro vacancy rate decreased 50 basis points sequentially and 40 basis points year-over-year to 6.4% in 1Q10. Positive net absorption totaled 158 units in 1Q10 and 543 units in the twelve-month period ended in March.
- Effective rent fell -0.1% year-over-year to \$667 in 1Q10. By comparison, asking rent declined at a faster -0.6% annual rate.
- Preliminary 2Q10 Reis figures were more constructive. The source calculates that vacancy fell 10 basis points to 6.3% and the average asking rent rose 0.6% sequentially to \$709.
- Apartment supply will remain subdued this year. Only one property (totaling 88 units) was completed in the first half of 2010, and Reis report that there were no apartment units under construction in July.
- Based on an assumed 6.3% going-in yield, **RCR** calculate a 6.7% expected rate of total return, ranking 36th highest among the **RED** 50. But low levels of historic NOI growth volatility produce the 15th highest measure of risk-adjusted return.

VACANCY TRENDS

- The metro vacancy rate fell 50 basis points sequentially from 6.9% in 4Q09 to 6.4% in 1Q10, owing to strong tenant demand. Property managers net leased 158 units from January to March, following negative net absorption of 138 units in the same period of 2009.
- Preliminary Reis data reveal that vacancy declined 10 basis points to 6.3% in the second quarter. Supply totaled 88 units in the quarter, shy of the 134-unit absorption estimate.
- Vacancy in the Downtown / Southwest submarket increased 130 basis points year-over-year from 5.2% in 1Q09 to 6.5% in 1Q10.
- Reis expect vacancy to rise to 6.6% by year-end, owing to weak tenant demand. But the service predicts that vacancy will fall to 6.4% in 2011.

RANK: 16th out of 50

RENT TRENDS

- The average effective rent was unchanged sequentially in the first quarter, following a -0.1% decrease in the previous period. By comparison, the pace of year-over-year effective rent decline moderated from -1.2% in 4Q09 to -0.1%.
- Asking rent decreased \$1 or -0.1% from \$706 in 4Q09 to \$705 in 1Q10. On the other hand, preliminary data show that the average asking rent rebounded in the second quarter, rising 0.6% to \$709.
- Two of the metro's five submarkets experienced year-over-year effective rent growth in the first quarter. The \$628 effective rent in the Downtown / Southwest submarket was up 4.3% year-over-year. Likewise, the Southeast average effective rent rose 2.0% year-over-year to \$593.

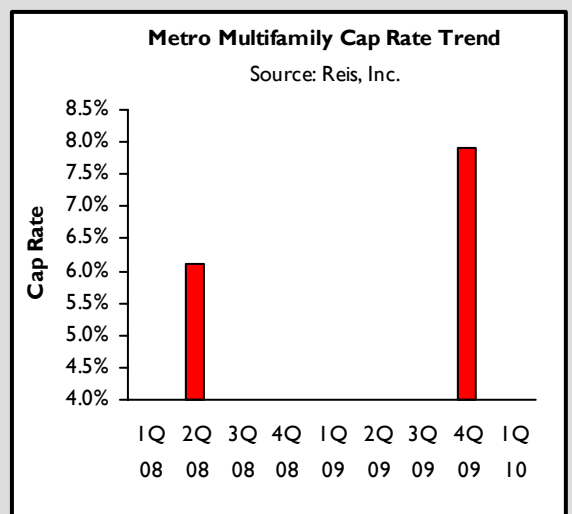
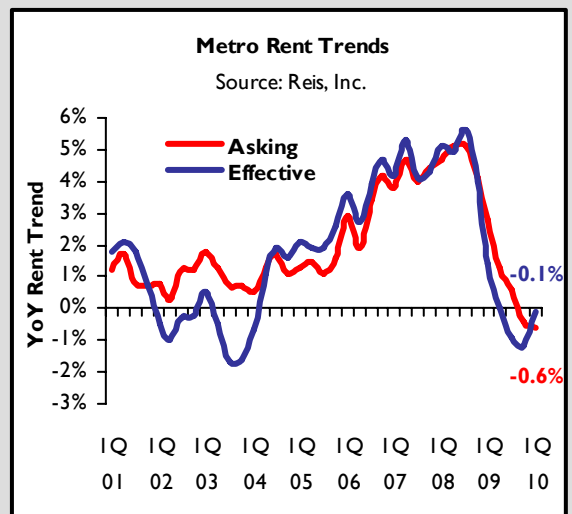
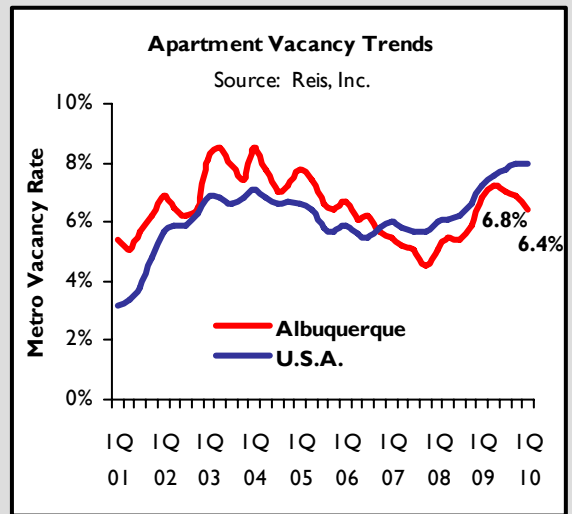
RANK: 15th out of 50

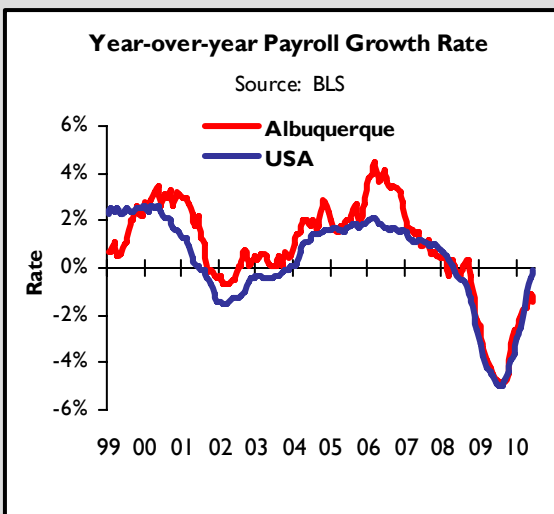
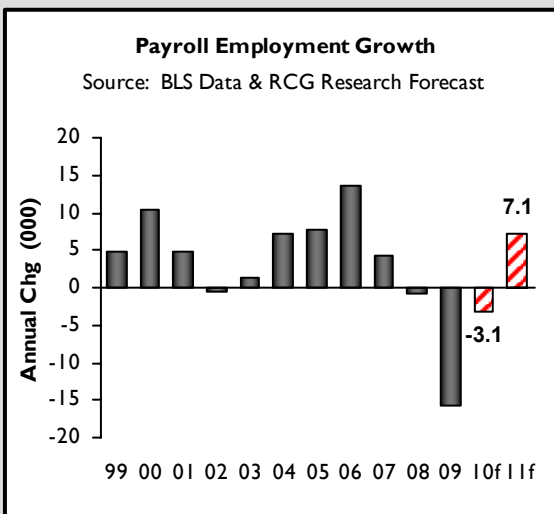
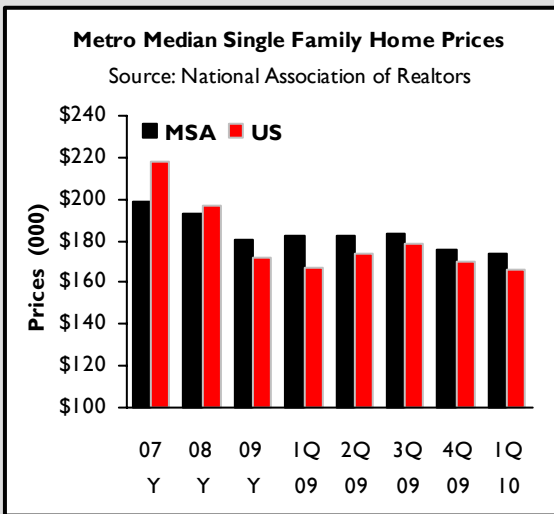
PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics was aware of one transaction in the twelve-month period ended in June. The transaction involved a 189-unit property located in the Southeast submarket. The property was constructed in 1979 and rehabbed in 2002. Industry reportage reveals that the property sold in December for approximately \$11.7 million, yielding a 7.9% cap rate. Additionally, Real Capital Analytics note that one property under contract in May. The 74-unit garden-style property also is located in the Southeast submarket.
- CB Richard Ellis report that cap rates for stabilized Class-A assets ranged from 6.25% to 6.75% in March.
- Based on an assumed 6.3% going-in yield, **RCR** calculate a 6.7% expected rate of total return, ranking 36th highest among the **RED** 50.

NOTABLE TRANSACTIONS

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





DEMOGRAPHICS & HOUSING MARKET

- The pace of population growth decelerated to 1.3% in 2009, owing to slower net domestic migration.
- According to the National Association of Realtors, the median price of a single-family MSA home decreased -4.6% year-over-year from \$182,600 in 1Q09 to \$174,200 in 1Q10.
- The Greater Albuquerque Association of Realtors were aware of 2,200 single-family home sales in 2Q10, up 20.6% from 1,825 sales in the same period of 2009. The source also calculates that the median single-family home price decreased -2.5% to \$178,500. The highest median price was recorded in the East Mountains area.
- By comparison, condo sales advanced 48.1% year-over-year to 271 but the median price decreased -4.0% year-over-year to \$145,000.

EMPLOYMENT TRENDS

Non-Seasonally Adjusted

- The pace of year-over-year job attrition decelerated from -13,500 (-3.4%) in 4Q09 to -8,100 (-2.1%) in 1Q10. Similarly, only -5,200 (-1.4%) jobs were lost year-over-year in 2Q10.
- Manufacturing employment rebounded. Only -700 jobs were eliminated in the twelve-month period ended in June, following a monthly year-over-year average decrease of -3,800 jobs in 2009.
- Education and health service firms continued to hire workers, albeit at a slightly slower rate than last year. Sector establishments created 2,600 jobs in 2009 and only 1,100 jobs in 1H10.
- Temporary Census hiring was partially responsible for the turnaround. Federal government employment rose 700 jobs year-over-year in April and was up 2,100 jobs year-over-year in May and 1,900 jobs year-over-year in June.

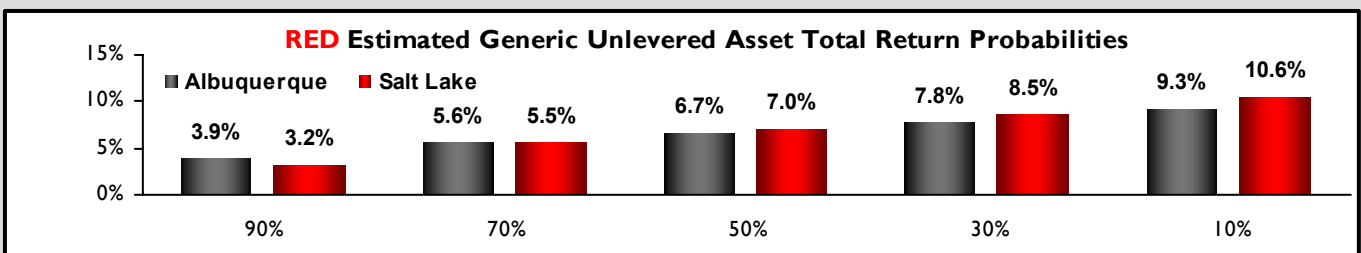
Seasonally-Adjusted

- On a seasonally-adjusted basis, employers cut -5,200 jobs in the first six months of 2010. By comparison, -10,900 jobs were eliminated in the same period of 2009.

Forecast

- RCR foresee a -3,100 (-0.8%) job decrease in 2010, but growth of 7,100 (1.9%) and 11,700 (3.0%) jobs in 2011 and 2012, respectively.
- Economy.com expect metro headcounts to advance 9,530 (2.5%) this year, 15,090 (3.9%) in 2011 and 20,230 (5.0%) in 2012.

RANK: 10th out of 50

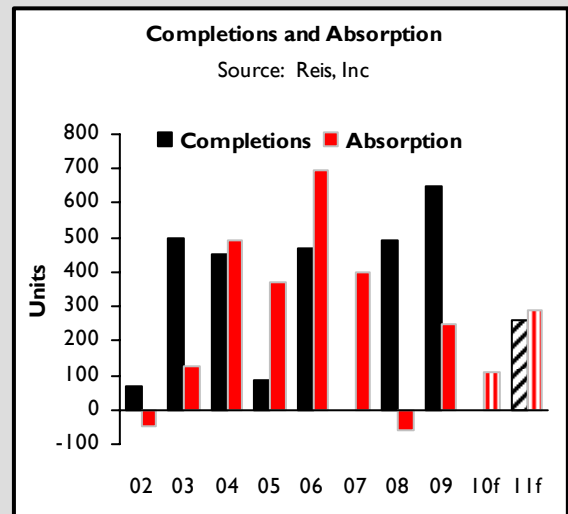


SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	1Q09	1Q10	Change	1Q09	1Q10	Change
Downtown / Southwest	\$602	\$628	4.3%	5.2%	6.5%	130 bps
Northwest	\$725	\$715	-1.3%	8.2%	6.7%	-150 bps
North Central	\$649	\$641	-1.2%	6.1%	5.7%	-40 bps
Northeast	\$743	\$734	-1.3%	6.5%	6.3%	-20 bps
Southeast	\$581	\$593	2.0%	7.2%	7.2%	unchg
Metro	\$668	\$667	-0.1%	6.8%	6.4%	-40 bps

SUPPLY TRENDS

- Reis identify one apartment property that was completed in the first six months of 2010. The 88-unit asset was delivered in the Northwest submarket in May. No apartment units were under construction in July, but Reis were aware of six projects in the planned or proposed phase. Three of the pipeline projects (663 units) are located in the Downtown / Southwest submarket. The other units are located in the Northwest (361 units) and Southeast (444 units) submarkets.
- According to Reis, only one condo property was under construction in July. Construction on the 100-unit Southeast submarket asset commenced in May 2007. An estimated completion date was not available.
- Reis predict that supply will average 295 units from 2010 to 2014, slightly below the 300-unit average observed from 2000 to 2009.



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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

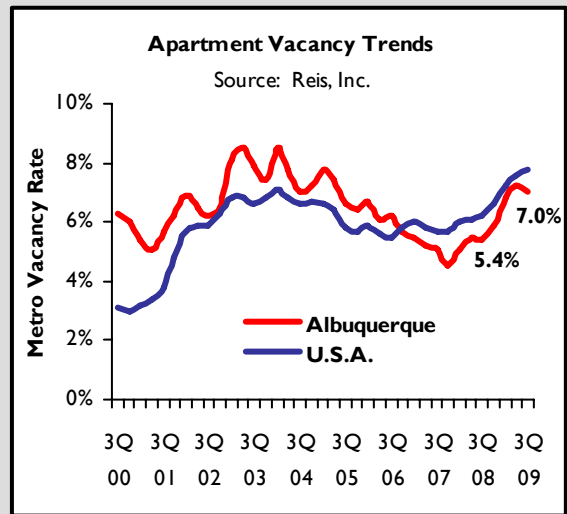
KEY POINTS

- 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.

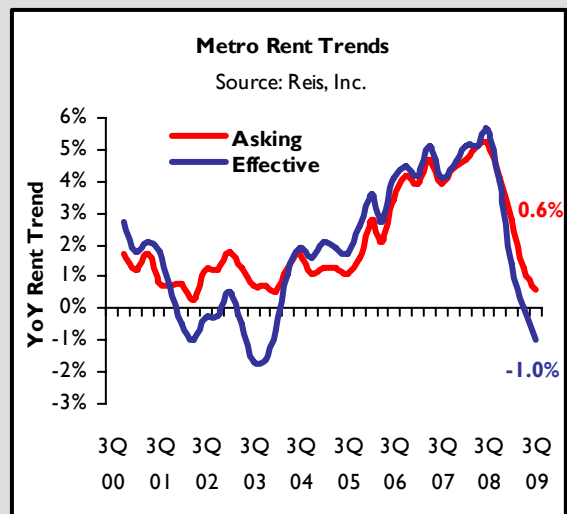
RANK: 23rd out of 50



RENT TRENDS

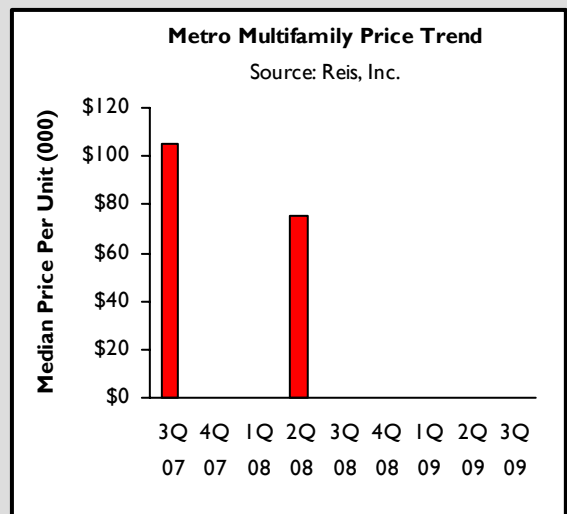
- Despite a 0.3% sequential increase in effective rent, the average figure was -1.0% below the prior year comparison, marking the first annual decline since 1Q04. On the other hand, asking rent gained 0.6% year-over-year as the decrease in effective rent was attributable to rising concessions. The size 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



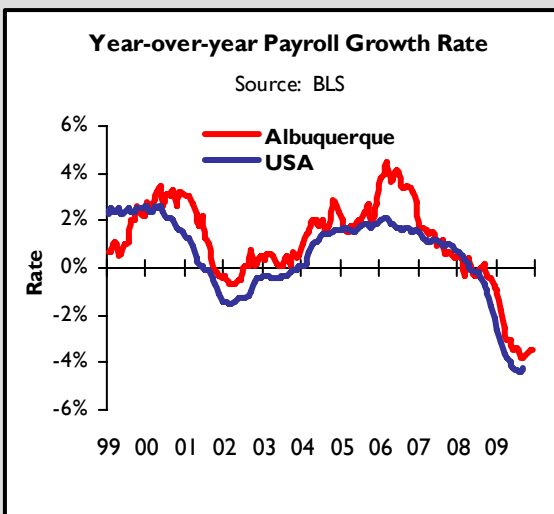
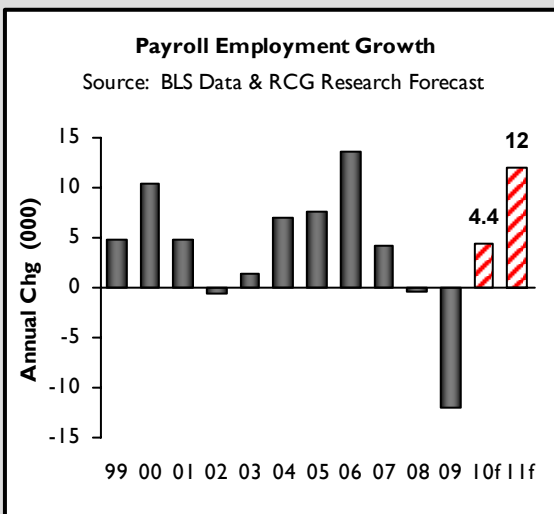
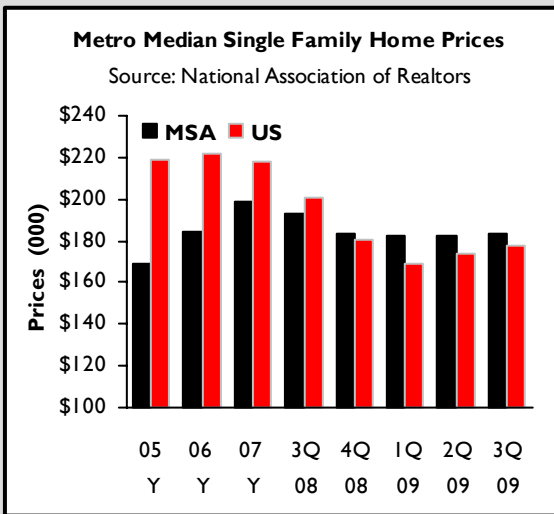
PROPERTY MARKET & CAP RATE TRENDS

- 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.

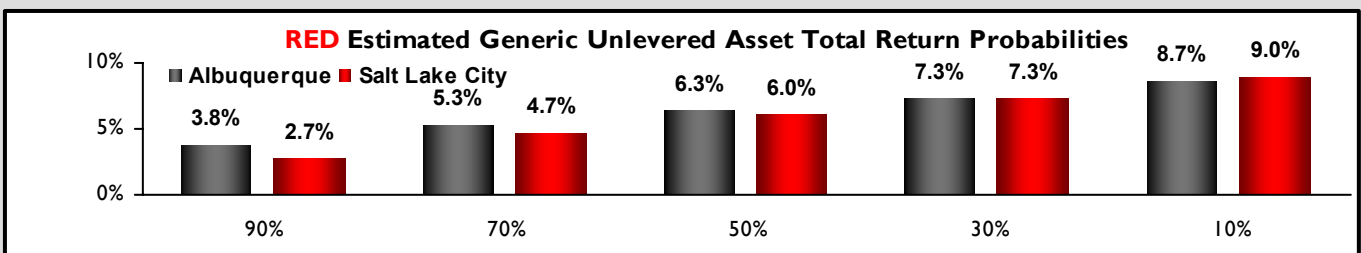
Seasonally-Adjusted

- 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

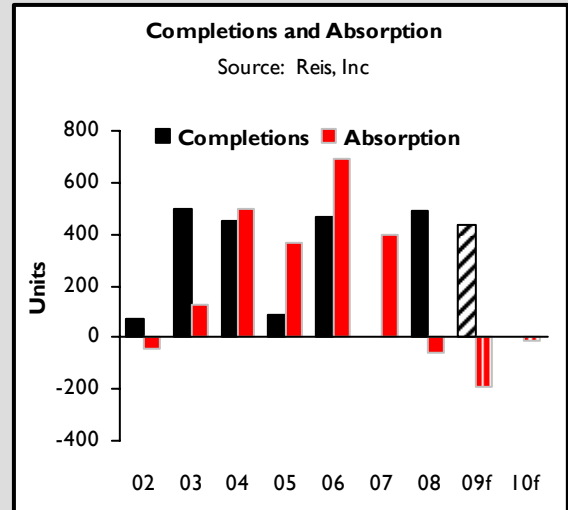


SUBMARKET TRENDS

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.



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