

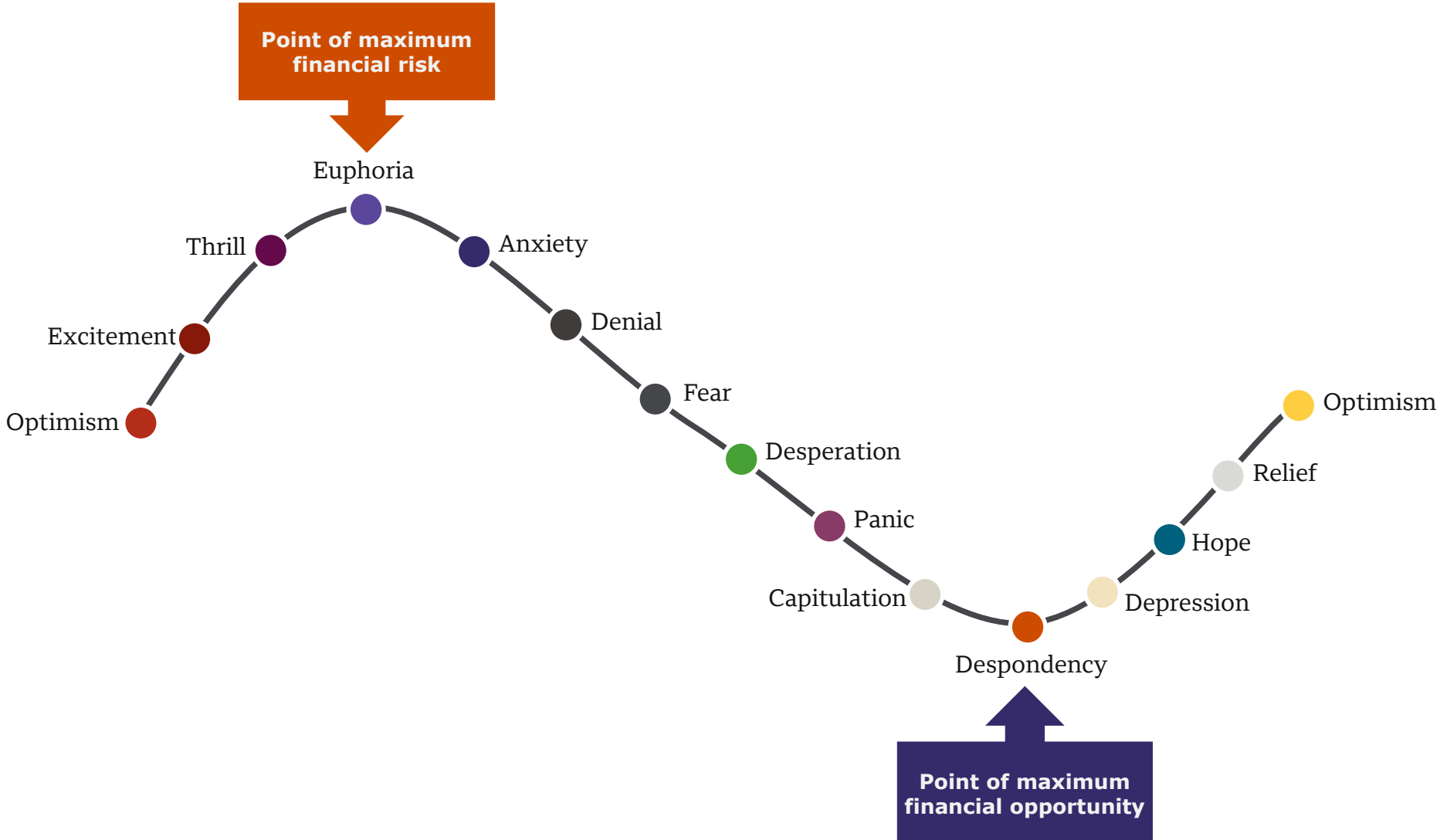
NAIOP January 2021 Panel Discussion

Ryan Garcia- Commercial Relationship Manager

Andrew Majxner- Rocky Mountain Investor Real Estate Advisor



Emotional real estate cycle- We are at different stages depending on asset type



Albuquerque- MF Asset Summary

Year	Inventory (Units)	Vacancy	Asking Rents (/Unit)	Population	Household Avg Income
2000	35,340	6.00%	\$594	736,640	\$70,510
2005	36,570	6.40%	\$626	820,550	\$80,711
2010	38,018	4.70%	\$716	894,520	\$89,158
2015	39,696	4.20%	\$785	907,560	\$97,984
2020 (Q3)	40,896	3.30%	\$915	919,180	\$119,798
2025 Forecast	41,750	3.20%	\$966	935,480	\$130,230

Forecast for the following years 2020-2025			
Year	Inventory (Units)	Vacancy	Asking Rents (/Unit)
2021	41,173	4.50%	\$893
2022	41,483	4.10%	\$902
2023	41,483	3.70%	\$920
2024	41,597	3.50%	\$941
2025	41,750	3.20%	\$966

Market notes:

- Often characterized as a slow recovery market (in past cycles), Albuquerque remains a smooth and steady apartment market thanks to a strong rebound from the pandemic-induced downturn. Consistent apartment demand has mitigated minimal supply-driven pressure on fundamentals, pressing down the vacancy rate to a ten-year low. Recent expansions by Netflix, NBCUniversal, and TaskUs are expected to provide an additional boost to apartment demand, as these companies expect to hire thousands of workers over the next several years.
 - TaskUs has yet to come to fruition.
- New construction has had a minimal impact on fundamentals this cycle, a trend likely to persist, with only a handful of smaller projects in the pipeline. The demand outlook could motivate developers to come off the sidelines as job growth gains traction and population growth trends closer to the national average.
- One of Albuquerque's biggest draws is affordability. The average rent is a fraction of the National Index, and modest rent growth over the past decade has allowed household incomes to generally keep pace with any increases in rent.
- The impact of the pandemic has made underwriting more challenging for lenders and investors. In 20Q3, deal activity slowed dramatically, although the state's nondisclosure status can cloud the investment picture.

Albuquerque- Retail Asset Summary

Year	Inventory (SF)	Vacancy	Asking Rents (/SF)	Population	Household Avg Income
2000	9,169,000	12.60%	\$13.06	736,640	\$70,510
2005	9,466,000	9.60%	\$14.36	820,550	\$80,711
2010	10,234,000	11.90%	\$14.56	894,520	\$89,158
2015	10,540,000	12.10%	\$14.74	907,560	\$97,984
2020 (Q3)	10,695,000	12.10%	\$14.50	919,180	\$119,798
2025 Forecast	10,695,000	14.10%	\$14.12	935,480	\$130,230

Forecast for the following years 2020-2025			
Year	Inventory (SF)	Vacancy	Asking Rents (/SF)
2021	10,695,000	15.00%	\$14.06
2022	10,695,000	15.40%	\$13.98
2023	10,695,000	15.70%	\$13.00
2024	10,695,000	14.70%	\$14.05
2025	10,695,000	14.10%	\$14.12

Market notes:

- The retail picture has dramatically changed in the age of the coronavirus. During the initial outbreak, the New Mexico Governor ordered all restaurants to be limited to take-out and delivery, and the closure of all nonessential businesses including shopping malls, recreational facilities, movie theaters, and fitness centers. Interestingly, hair salons, barbershops, and nail salons were exempt. Upon reopening, capacity at businesses has been limited in order to slow the spread of the virus.
- Pre-coronavirus, several high-vacancy retail centers put some pressure on Albuquerque fundamentals. The overall metro vacancy rate still hovered near their historical average, thanks to steady demand in an improved local economy. Most construction has been either build-to-suit or preleased, having a negligible effect on the vacancy rate.
- Albuquerque's average rent is about 30% lower than the national index. Like many lower-tier markets in the Southwest, rent growth often has difficulty gaining traction. Although Albuquerque is not a particularly liquid retail market, California investors have been particularly active and are responsible for many of the biggest deals in past quarters.

Albuquerque- Office Asset Summary

Year	Inventory (SF)	Vacancy	Asking Rents (/SF)
2000	13,821,000	10.80%	\$14.83
2005	13,930,000	11.60%	\$15.41
2010	13,583,000	16.50%	\$16.18
2015	13,533,000	21.70%	\$16.55
2020 (Q3)	13,296,000	20.20%	\$17.31
2025 Forecast	13,336,000	20.50%	\$17.77

Forecast for the following years 2020-2025			
Year	Inventory (SF)	Vacancy	Asking Rents (/SF)
2021	13,296,000	22.30%	\$17.08
2022	13,296,000	22.50%	\$17.17
2023	13,308,000	22.50%	\$17.35
2024	13,322,000	21.60%	\$17.55
2025	13,336,000	20.50%	\$17.77

Market notes:

- Office demand in Albuquerque often comes from smaller tenants, which is not uncommon in lower-tier markets. However, several recent expansions from Netflix and TaskUs were big wins for local officials and economic development groups.
 - TaskUs as noted previously, has yet to come to fruition.
- Construction has been limited since 2012, particularly when compared to the years leading up to the Great Recession. The pipeline remains sparse and supply-side pressure on fundamentals is unlikely to occur in the near term..
- The average office rent in Albuquerque is about half of the National Index and is a major draw for corporations seeking to expand or relocate to a low-cost location. Consistent rent growth has been hard to come by and rents have been relatively flat in the past decade.
- Investment activity is expected to slow substantially in the coming quarters due to uncertainty in the economy.

Economic Outlook- Positives and Negatives

- Local officials and economic development groups have been proactive in diversifying the economy after reeling for years coming out of the Great Recession. Their efforts started to pay off with several major companies announcing expansions in the metro area.
- In June 2019, NBCUniversal announced its expansion into Albuquerque, which would create more than 330 jobs with an average salary of \$60,000. The media titan plans to invest \$4 million to convert a warehouse in Martineztown into a TV and film studio. NBCUniversal expects to spend \$500 million in production costs at its studio, with local officials estimating an economic impact of \$1.1 billion over 10 years.
- This announcement comes on the heels of another expansion from a major TV and film producer. In October 2018, Netflix announced plans to acquire a 257,000-SF production facility from Albuquerque Studios in Mesa Del Sol. Over the next decade, the online entertainment provider estimates it will invest \$1 billion for its productions in the state and create about 1,000 jobs annually. Netflix's expansion into Albuquerque was facilitated through \$10 million in funding from New Mexico's Local Economic Development Act and \$4.5 million from the city of Albuquerque.
- Facebook's expansion into Los Lunas could provide some long-term economic tailwinds to the metro as its data centers deliver in phases through 2023. After breaking ground on its initial phases, Facebook announced that its footprint would expand from two buildings, totaling 970,000 SF, to six buildings, totaling approximately 2.8 million SF.
- One issue facing the Albuquerque metro, and the state as a whole, is a reliance on oil and government. Both sectors have shrunk this cycle and have historically been drivers of the economy.

A lenders lens

- Q1 2020 IRE activity was strong, then the COVID cliff came along.
- The focus shifted to internal portfolio management rather than new money originations for much of Q2 and Q3.
- As noted previously underwriting in 2020 was difficult for lenders and investors. That continues to be a challenge, especially with some asset types with extended recovery expectations.
- Re-engagement was felt in Q4 2020 and is providing some positive momentum in 2021.
 - That is particularly true in asset types that have held up well through the past year including Multi-Family, Industrial, and other asset types including self-storage.
 - Retail is expected to still have near term challenges, with tenants including restaurants expected to face difficult times through 2021.
 - Office is case by case with various risks depending on location, tenant mix, and lease maturity rollover. We do not believe we have seen the final impact on this asset type as companies continue to work from home and may re-evaluate their office needs at or even prior to lease maturity.
- Lender underwriting includes heightened focus and due diligence on the subject property and principals.
 - Deeper analysis of rent roll, rollover risk, market/submarket dynamics.
 - That may include financial performance of tenants on site, if available, as well as renewal discussions.
 - Sensitivity analysis to include analysis from In-Place (or Proforma) operations to covenant level and breakeven levels.
 - Sensitize for movement in vacancy rates (physical/economic), interest rates, and cap rates.
 - Lender proforma may be more conservative than historically, which is likely to line up with appraisals in near term.
 - Rent roll assessment with contractual versus actual performance. Impacts from 2020 into 2021 and beyond with rent deferrals, abatements, renewals, etc.
 - Understanding of principals liquidity and cash flow through 2020, as well as IRE portfolio as a whole to assess strengths and weaknesses within the portfolio. Those can either support or stain our principals, and/or our subject property.
- Q1 2021 and Q2 2021 should provide a large enough sample size to determine trends within appraisals.
 - Market lease rates, vacancy factors, and cap rates as determined within appraisals would have a direct affect on appraised values.

- Data was sourced via reis.com and CoStar reporting.
- Contact information:
 - Ryan P. Garcia, CCIM
Vice President
Commercial Relationship Manager

Wells Fargo Commercial Banking | 200 Lomas Blvd. NW 6th Floor | Albuquerque, NM 87102
Telephone [505-766-6149](tel:505-766-6149) | Cell [505-639-9415](tel:505-639-9415) | Fax [505-247-4639](tel:505-247-4639)
Ryan.p.garcia@wellsfargo.com

- Andrew Majxner
Senior Vice President, Investor Real Estate Advisory
Wells Fargo Commercial Banking
Tel: 406.582.5107 | *EFax*: 866.966.8201
andrew.j.majxner@wellsfargo.com