

Market Insights

Albuquerque Multifamily 2Q 2022



Construction Activity



2,278

Units under construction

92

Units delivered (YTD)

Market Fundamentals



2.6%

Vacancy

-100bps

Year over year change

\$1,213

Asking Rent

+24.4%

Year over year change

Transaction Activity*



\$137,500

Median sales price per unit (YTD)

Vacancy Reaches All-Time Low at Midyear

Highlights

- Albuquerque's ongoing supply and demand imbalance has multifamily developers moving more projects into the pipeline to keep pace with renter demand. Vacancies are down, and rents are continuing to push higher at a rapid clip. Year to date, deliveries have been minimal, but completions are on pace to gain momentum in the second half.
- Rent increases have been substantial since the beginning of 2021. Asking rents rose 3.9 percent to \$1,213 per month during the second quarter. During the past 12 months, asking rents spiked 24.4 percent.
- Total transactions up to this point in 2022 are closely tracking prior year levels, despite fewer properties trading during the second quarter. In sales where pricing is available, the median price reached \$137,500 per unit, while cap rates averaged around 4 percent.
- Vacancy rates fell 30 basis points to 2.6 percent in the second quarter, pushing the rate down to an all-time low. Year over year, local vacancies have dropped 100 basis points.

Albuquerque Multifamily Market Overview

Operating conditions in the Albuquerque multifamily market continued to strengthen during the second quarter, although employment growth slowed. Vacancy hit an all-time low, dropping to 2.6 percent. Rents continue to rise in response to developers being unable to compete with demand. Albuquerque is currently in a short-term, supply-demand imbalance; demand has remained steady while supply growth has been minimal. The second quarter did not deliver any significant projects, but the number of units under construction tripled during the past year. Once completed, projects under construction will drive supply toward equilibrium.

Multifamily sales activity slowed during the second quarter, following a fairly active start to the year. Despite the recent slowing, transaction volume year to date is fairly similar to levels recorded during the same period in 2021. The bulk of the activity that has closed year to date has generally involved Class B assets with 150 to 250 units. Several properties have sold for prices ranging from \$15 million to \$30 million; a few years ago, activity was concentrated below \$10 million. In transactions where pricing was available, the median sales price to this point reached \$137,500 per unit, up modestly from 2021 levels. Cap rates averaged around 4 percent during the second quarter.

* In transactions where pricing is available

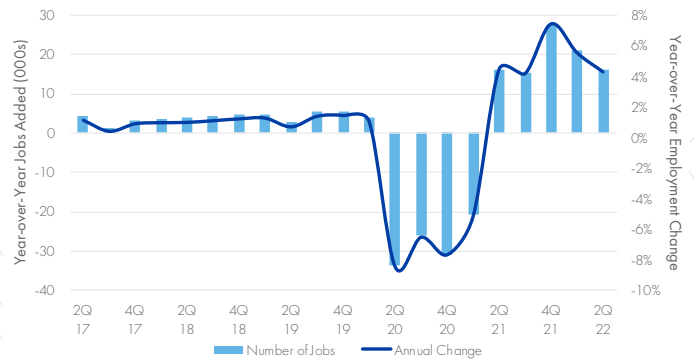
Employment

- Employment levels in Albuquerque continue to trend higher. Year over year through the second quarter, more than 16,000 jobs have been added, a 4.3 percent increase to local payrolls.
- The leisure and hospitality sector outperformed most other industries during the last several quarters. During the past 12 months, the sector added back 5,300 positions and grew by 13.4 percent. Current leisure and hospitality employment totals are back to levels before the onset of the COVID-19 pandemic.
- Drug manufacturer Curia recently announced plans to expand its presence in the area with a 65,000-square-foot development at its Alexander Boulevard facility. The bioscience company, which currently employs 400 workers in Albuquerque, is projected to create nearly 300 high-paying jobs in the coming years.
- **Forecast:** The labor market in Albuquerque has fully recovered from the volatility of 2020 and is poised for a period of more gradual expansion in the coming years. Employers are expected to add approximately 7,500 jobs in 2022, an increase of 1.9 percent.



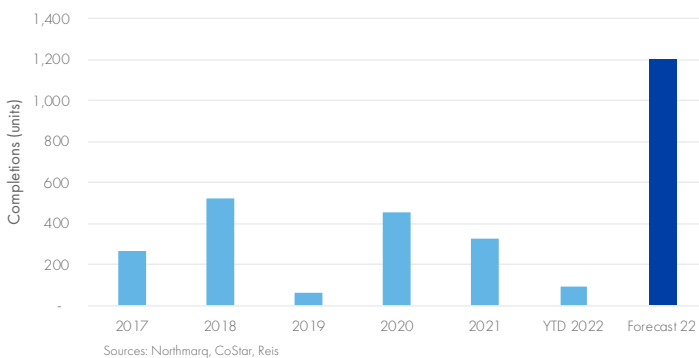
Year over year, more than 16,000 jobs have been added.

Employment Overview



Projects totaling more than 2,250 units are currently under construction.

Development Trends



Development and Permitting

- The pace of deliveries tapered off in recent months as no significant projects came online during the second quarter. Construction has been fairly light throughout 2022. Fewer than 100 apartment units were completed at the start of the year.
- While deliveries have been minimal, the multifamily development pipeline continues to expand with projects totaling more than 2,250 units currently under construction, up 60 percent from one year ago.
- Multifamily permitting gained momentum during the second quarter. Developers pulled permits for more than 2,200 multifamily units during the first half of this year, 27 percent higher than activity levels during the same period in 2021.
- **Forecast:** Developers are expected to accelerate deliveries in the second half, and approximately 1,200 units are forecast to come online this year. Assuming all projected units are delivered on time, this will be the strongest year of deliveries since 1996.

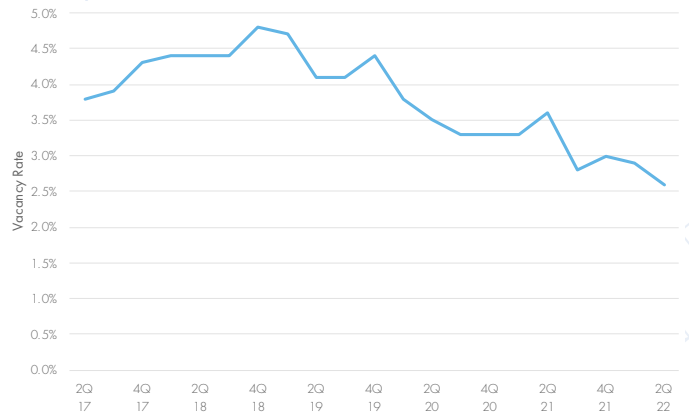
Vacancy

- Vacancies in Albuquerque continued to dip during the second quarter, setting a new market low. The vacancy rate fell 30 basis points, falling to 2.6 percent.
- Year over year, the vacancy rate improved by 100 basis points. The tightest vacancies are being recorded in the Northeast submarket, where the rate dropped by 40 basis points during the past year to 1.4 percent.
- Although vacancies tightened across nearly the entire market in recent quarters, the largest declines occurred in upper-tier properties. During the past year, the vacancy rate in Class A units fell by 130 basis points to 3.2 percent. Vacancy in Class A properties may inch higher as the pace of new development accelerates.
- **Forecast:** The local vacancy rate is forecast to end 2022 at 2.8 percent; a bit higher than the all-time low but still 20 basis points lower than the year-end 2021 rate.



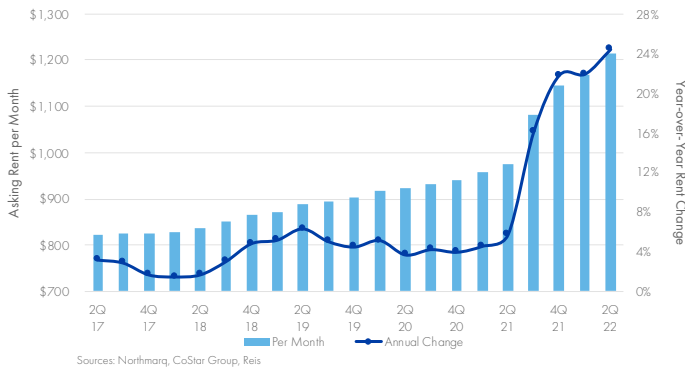
Local vacancy fell by 30 basis points in the second quarter.

Vacancy Trends



During the past 12 months, average rents spiked 24.4 percent.

Rent Trends



Rents

- Rents continued to grow at a healthy pace in recent months. During the second quarter, asking rents rose 3.8 percent to \$1,213 per month, building on a gain of 2 percent that was recorded in the first three months of the year.
- During the past 12 months, average rents across the Albuquerque market have spiked 24.4 percent. Annual rent growth averaged around 3.5 percent from 2015 to 2020 before surging in the second half of 2021.
- While rents have spiked throughout the region, the Northeast Heights submarket recorded the largest rent increases. Asking rents in the area increased 32 percent year over year, jumping roughly \$300.
- **Forecast:** Rents are expected to trend higher through 2022, but not at the accelerated rate of the past year. Asking rents are forecast to increase 7.9 percent, ending the year at \$1,235 per month.

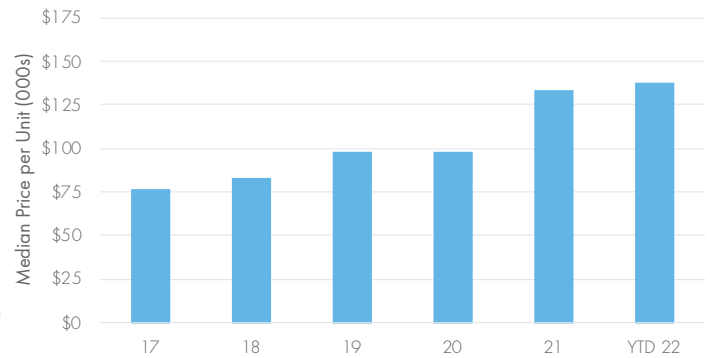
Multifamily Sales

- While property fundamentals continued to improve, investment activity cooled during the second quarter, slowing about 25 percent from the start of the year. Despite the recent dip, transactions through the first half of 2022 are closely tracking last year’s levels. Sales activity year to date is down just 6 percent from the same period in 2021.
- To this point in the year, the median sales price in transactions where pricing was available is \$137,500 per unit, up 3 percent from the median price in 2021.
- Cap rates remain low in Albuquerque but have inched higher from the first few months of the year. During the second quarter, cap rates averaged around 4 percent.



To this point in the year, the median sales price is \$137,500 per unit.

Investment Trends



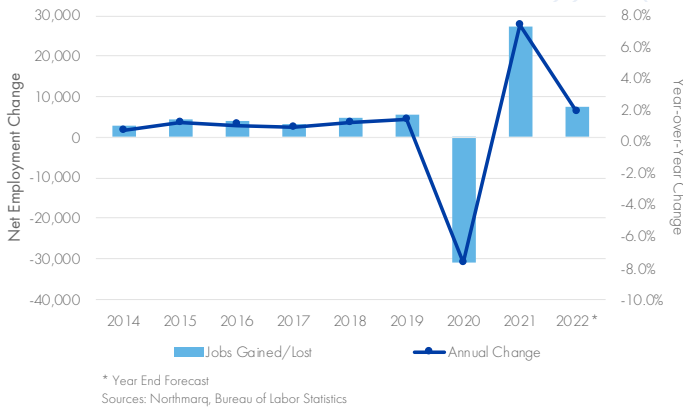
Sources: NorthMarq, CoStar

Looking Ahead

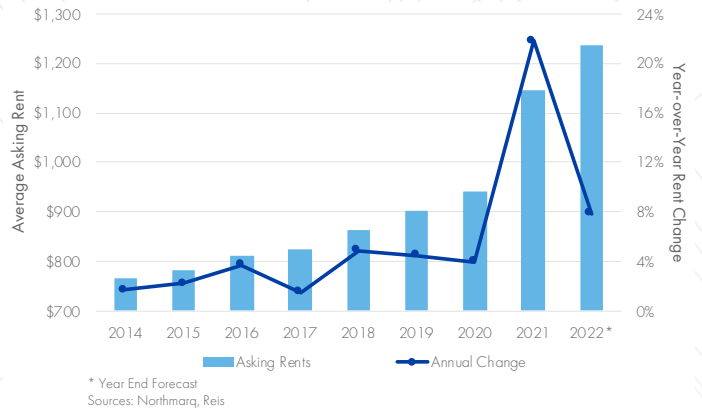
Apartment conditions in Albuquerque are among the strongest of any market in the country, a trend that is expected to remain in place during the second half of this year. Renter demand for units has consistently outpaced supply growth in recent years, although the delivery of a handful of new projects in the second half will likely result in a slightly higher vacancy rate for the next few quarters. Still, the current rate is at an all-time low, and conditions are expected to remain tight, even as new supply enters the market and if the pace of economic growth cools marginally.

After some reduced activity in the second quarter, the multifamily investment market in Albuquerque is forecast to rebound rather quickly in the second half of 2022. Cap rates have averaged about 4 percent during the past 12 months but are poised to push higher going forward. Early indications suggest cap rates will likely settle in around 5 percent in the coming quarters. Despite these increases, investors will remain drawn to local multifamily properties. The market's extremely low vacancy conditions support investment, the competitive threat from new supply is generally modest, and the region is not dependent on rapid population growth to sustain attractive property performance.

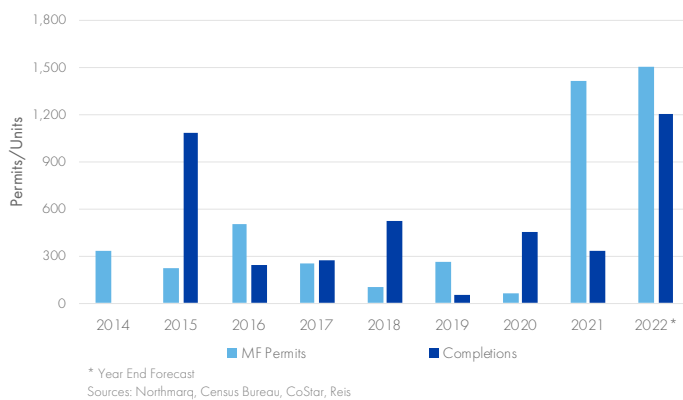
Employment Forecast



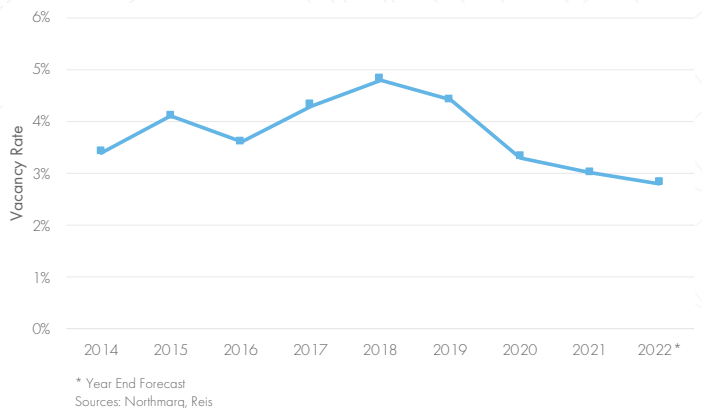
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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