

After years of undersupply, construction is on the rise

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **3,724**

UNITS DELIVERED **0**

MARKET FUNDAMENTALS



VACANCY RATE **1.9%**

YEAR-OVER-YEAR CHANGE **-100bps**

ASKING RENTS **\$1,270**

YEAR-OVER-YEAR CHANGE **+8.7%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT* **\$182,900**

* Transactions where pricing is available

HIGHLIGHTS

- Multifamily property performance in Albuquerque has been fueled by an extremely low vacancy rate, limited construction, and rising rents. In the first quarter, rents inched lower, despite extremely tight vacancy conditions.
- Vacancy was flat in the first quarter, following four consecutive quarterly declines. The rate has declined 100 basis points year over year to just 1.9 percent.
- After two years of steep rent increases, apartment operators gave back some of the recent gains at the start of 2023. Asking rents ticked lower by 1 percent to \$1,270 per month in the first quarter. In the past 12 months, rents spiked by 8.7 percent.
- Transaction volume was limited during the first quarter. In the handful of properties that sold and where pricing was available, the median sales price was \$182,900 per unit, up 37 percent from last year's figure.

ALBUQUERQUE MULTIFAMILY MARKET OVERVIEW

After several years of extremely strong operational performance, multifamily property fundamentals leveled off during the first quarter. Vacancy remained tight while rents inched lower. New supply growth remained limited during the first three months of 2023, which allowed vacancy to remain at all-time lows. After five years of consistent quarterly rent increases, asking rents dipped lower in recent months. Area rents fell by 1 percent during the first quarter. Despite the minimal decline in recent months, current rents are up nearly 9 percent compared to one year ago. Furthermore, the development pipeline continues to expand and is expected to result in a surge of new inventory in the coming periods.

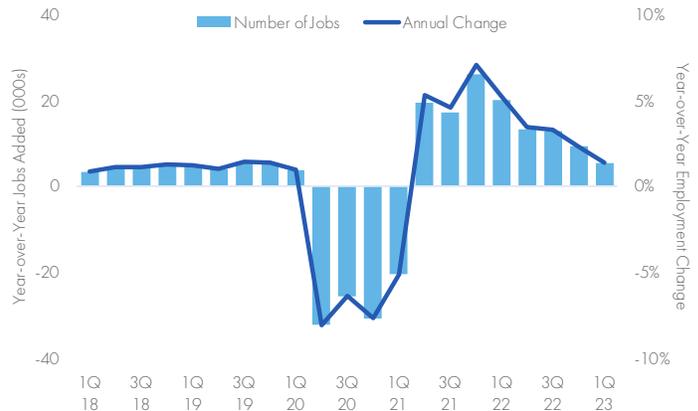
The Albuquerque multifamily investment market posted a mixed performance in recent months, as sales velocity slowed while prices trended higher. Transaction activity during the first quarter fell significantly from the previous period with only a handful of deals closing at the beginning of the year. In the sales that did occur, investors showed a preference for townhomes and garden-style apartments. In transactions where pricing information was available, the median sales price reached \$182,900 per unit, up 37 percent from levels recorded last year. Cap rates averaged about 5.25 percent in the first quarter, similar to the trading range at the end of 2022.

EMPLOYMENT

- Net hiring in Albuquerque has leveled off in recent months, but the local labor market is in a stronger position than one year ago. Area employers have expanded payrolls by 5,400 workers during the past 12 months, an increase of 1.4 percent.
- The education and health services sector was one of the region’s top-performing industries in recent periods. In the past year, this sector accounted for nearly half of the new jobs added throughout the market. Year-over-year expansion in the sector totaled 2,400 jobs and a growth rate of 3.6 percent.
- Global robotics company ABB Group recently announced plans to add a 90,000-square-foot manufacturing facility to its existing campus in West Albuquerque. The \$40 million facility is scheduled to come online in 2024, adding 55 new jobs and bringing the company’s total local workforce to more than 500 employees.
- **FORECAST:** The local labor market is expected to rebound in the coming periods, but growth will be modest. Total employment is forecast to rise by 0.6 percent in 2023, with the addition of 2,500 new workers.

Area employers have expanded payrolls by 5,400 workers.

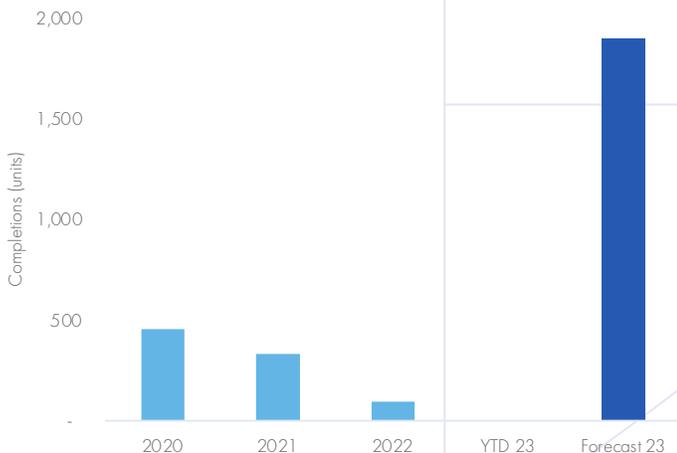
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling more than 3,700 units are currently under construction.

DEVELOPMENT TRENDS



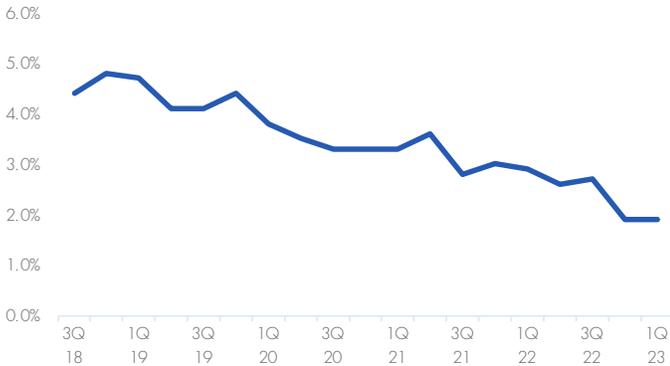
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- There were no significant deliveries during the first quarter after a limited number of projects came online in 2022. The recent lull in deliveries is not expected to persist; the pace of completions is forecast to gain momentum throughout the remainder of the year.
- Despite minimal apartment deliveries in the last 12 months, developers remain active in Albuquerque. Projects totaling more than 3,700 units are currently under construction throughout the region, up more than 50 percent from one year ago.
- Multifamily permitting has been steady since 2021. During the first quarter, developers pulled permits for 400 units, up 16 percent year over year.
- **FORECAST:** Multifamily development is expected to ramp up in the coming quarters, as projects totaling roughly 1,900 units are forecast to come online in 2023. The market has been undersupplied since 2019, with deliveries limited during the past few years.

Local vacancy improved by 100 basis points during the last 12 months.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

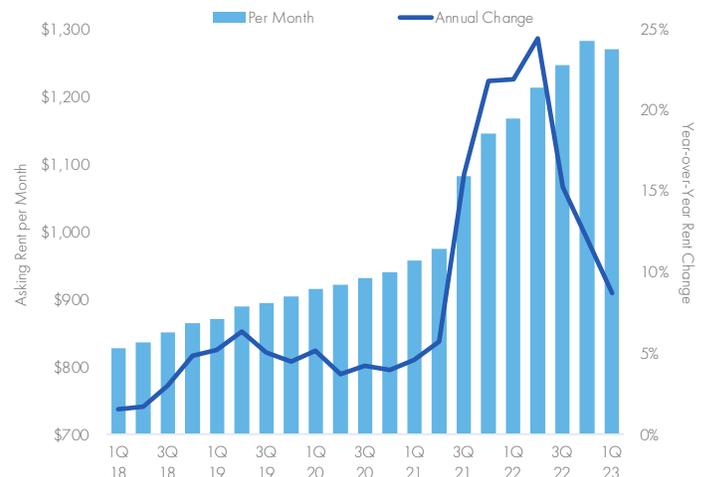
- Vacancy held steady at 1.9 percent in the first quarter, matching the year-end 2022 level. Local vacancy improved by 100 basis points during the past 12 months.
- The Far Northeast Heights submarket continues to record the steepest vacancy declines. Year over year, vacancy in this submarket dropped by 190 basis points to 1.1 percent.
- The vacancy rate declined across all asset classes in the past year with upper-tier properties posting the largest improvement. Vacancy in Class A units fell 220 basis points during the last 12 months to 1.5 percent. The Class A vacancy rate will likely trend higher as new units are delivered. Historically, the rate in the top-tier has ranged between 3.5 percent and 5 percent.
- **FORECAST:** With new development expected to gain momentum in the coming months, vacancy will likely trend higher and return closer to the market’s long-term average. The rate is forecast to finish 2023 at 3 percent, rising 110 basis points for the full year.

RENTS

- Asking rents inched lower during the first quarter, following two consecutive years of double-digit rates of growth. Rents dipped 1 percent in the last three months to \$1,270 per month. Year over year, apartment rents rose 8.7 percent.
- The Northeast submarket is the region’s most expensive and recorded the fastest rent gains. Asking rents in the submarket increased 11.9 percent in the last 12 months, ending the first quarter at \$1,491 per month.
- Rent growth continues to be strongest in mid- and lower-tier units. Year-over-year, combined asking rents in Class B and Class C properties rose 10.8 percent to \$1,100 per month. As recently as 2020, the combined average asking rent in Class B and Class C units was below \$800 per month.
- **FORECAST:** Asking rents are expected to trend higher at a modest pace through the end of the year. Area rents are forecast to finish 2023 at \$1,310 per month, an annual gain of roughly 2 percent.

Year over year, asking rents rose 8.7 percent.

RENT TRENDS



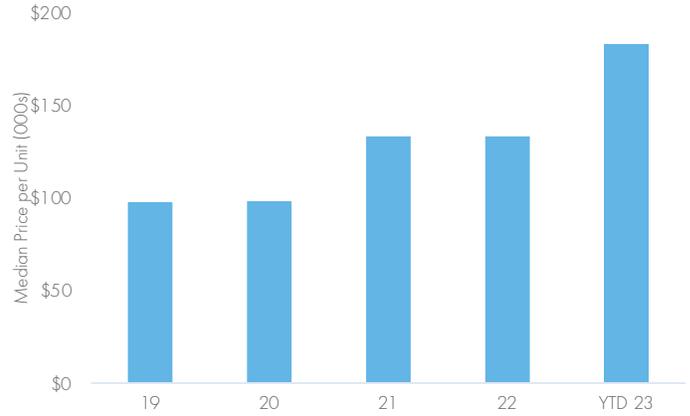
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily sales activity was light at the start of 2023, but some transactions still occurred. Albuquerque is generally a low-volume transaction market even in periods when conditions for investment activity are optimal.
- While only a handful of properties traded in Albuquerque in recent months, pricing spiked during the first quarter. In transactions where pricing was available, the median sales price to this point in 2023 is \$182,900 per unit, up 37 percent from last year's figure.
- Cap rates held steady during the first quarter, closely tracking levels from the end of last year. Cap rates averaged approximately 5.25 percent in the first three months of 2023.

The median sales price so far in 2023 is \$182,900 per unit.

INVESTMENT TRENDS



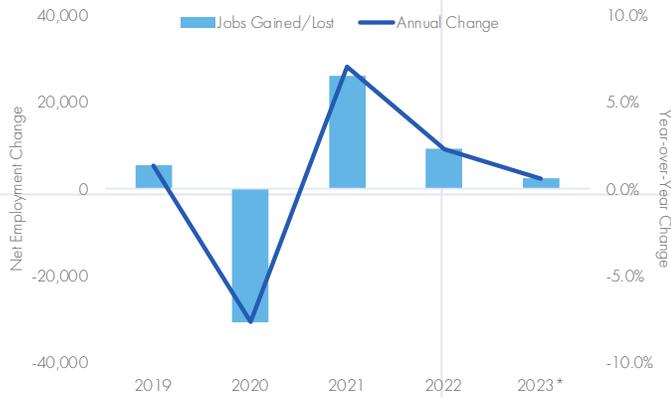
Sources: Northmarq, CoStar

LOOKING AHEAD

Property fundamentals in Albuquerque are projected to return closer to normal conditions in 2023, following a few years of rapid improvement. Several years of minimal supply growth have caused vacancies to tighten to all-time lows, but the market is finally poised to receive an influx of new units, helping alleviate an ongoing supply shortage. Projects totaling more than 3,700 units are under construction, with 1,900 units scheduled to come online this year. Vacancy is forecast to finish 2023 around 3 percent, higher than the current rate but still low enough to support modest rent increases.

After emerging as one of the top-performing markets for smaller multifamily investors in recent years, sales activity in Albuquerque was minimal in the first quarter. While overall property fundamentals remain solid, many investors are now finding the financing environment more challenging, and these obstacles have halted transactions. Going forward, sales activity may remain limited in the coming periods, unless capital markets change course. The increase in new development could ultimately result in additional transaction volume, but this will likely materialize in 2024 or later and is not expected to significantly impact the investment market this year.

EMPLOYMENT FORECAST



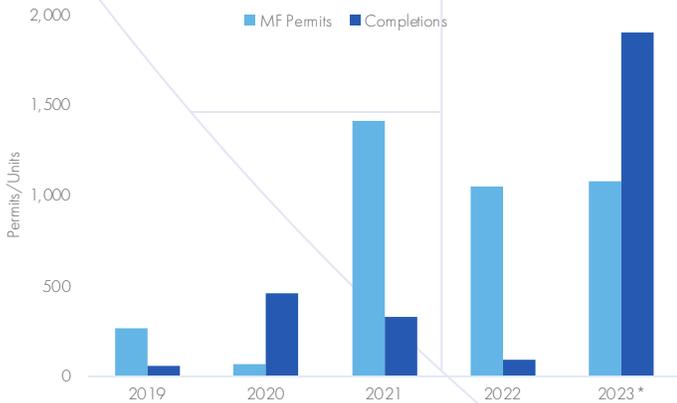
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



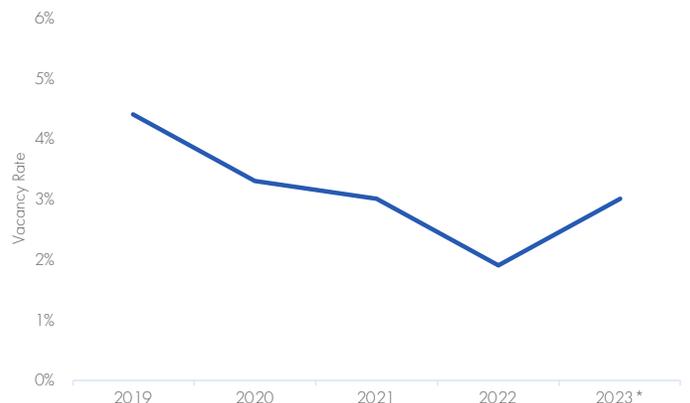
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, Reis

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, Reis





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