

A few more properties trade in the third quarter

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **2,606**

UNITS DELIVERED **158**

MARKET FUNDAMENTALS



VACANCY RATE **6.3%**

YEAR-OVER-YEAR CHANGE **+360bps**

ASKING RENTS **\$1,291**

YEAR-OVER-YEAR CHANGE **+3.5%**

TRANSACTION ACTIVITY (YTD)



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

* Transactions where pricing is available

HIGHLIGHTS

- The Albuquerque multifamily recorded mixed conditions during the third quarter. Rents pushed higher, even with vacancy levels lingering around 6 percent. Year to date, deliveries have been minimal, but construction activity is expected to ramp up in the coming quarters.
- Asking rents advanced 1.3 percent in the last three months to \$1,291 per month. Rents are up 3.5 percent from one year ago.
- Multiple properties changed hands in the local multifamily investment market during the third quarter, after minimal sales volume in the first half of the year. In transactions where pricing was available, the median price to this point in 2023 is \$182,900 per unit, up 37 percent from last year's figure.

ALBUQUERQUE MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Albuquerque multifamily market showed signs of stabilizing during the third quarter, even though renter demand for units has not yet posted a significant rebound. On the supply side, construction has been limited in recent years, with developers delivering fewer than 1,000 units from 2019 through the end of last year. Deliveries will gain momentum at the end of 2023 and into next year, with more than 2,600 units in the construction pipeline. Vacancy rates have been above the region's long-term trends throughout much of 2023, but operators continued to raise rents in recent months. Still, annual rent gains in 2023 will lag the spikes recorded in the past two years.

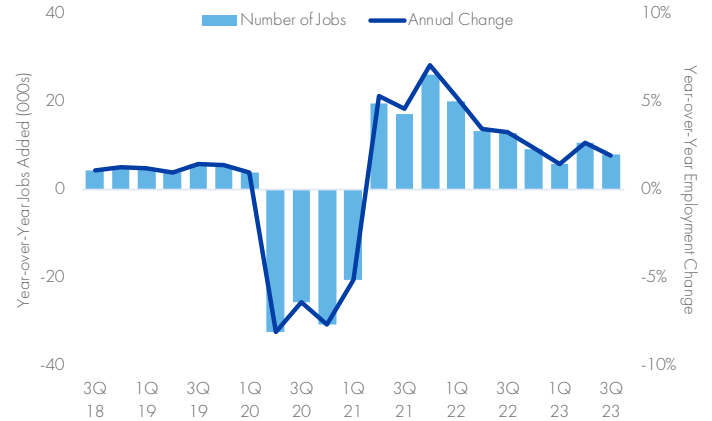
The Albuquerque multifamily investment market posted some improved performance during the third quarter, as sales velocity bounced off of earlier lows and pricing remained elevated. Transaction volume gained momentum in recent months after light activity during the first half of 2023. Roughly half a dozen properties changed hands during the third quarter, nearly tripling levels posted in the preceding six months. While the total number of deals year to date is still down roughly 70 percent from the same period in 2022, the recent advance in activity is a positive sign. One reason activity has picked up is cap rates have pushed higher. Cap rates averaged roughly 6 percent during the third quarter, up 150 basis points from one year ago.

EMPLOYMENT

- The local labor market expanded at a more modest pace in recent months, following strong gains in the second quarter. Year over year, area employers added 7,900 workers, increasing total employment by 2 percent.
- The leisure and hospitality industry has been Albuquerque’s fastest-growing sector during the past 12 months. In the past year, this industry added 3,200 workers, expanding by 7.4 percent.
- During the third quarter, Maxon Solar Technologies announced plans for a new manufacturing facility at a 160-acre location in Mesa Del Sol. The facility will include solar cell fabrication and panel assembly. Current estimates call for a construction start in early 2024 and approximately 1,800 new jobs in the region including high-tech manufacturing and engineering.
- **FORECAST:** The local labor market is forecast to record another year of employment growth in 2023, although the annual gains will trail the last two years. Total employment is expected to grow by 2 percent this year, with the addition of 8,000 jobs.

Year over year, area employers added 7,900 workers.

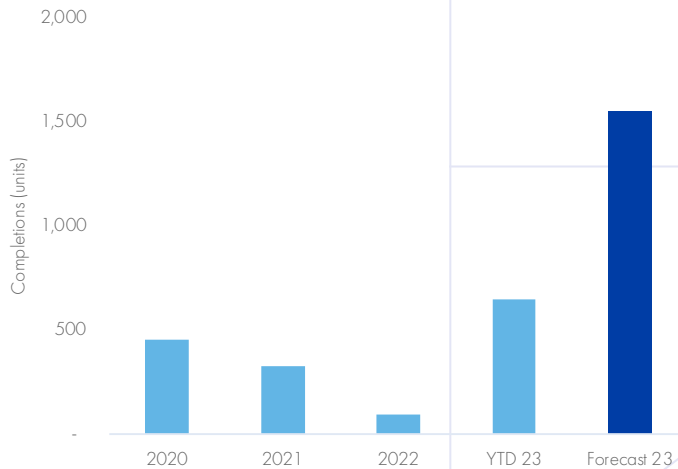
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling approximately 2,600 units are under construction.

DEVELOPMENT TRENDS



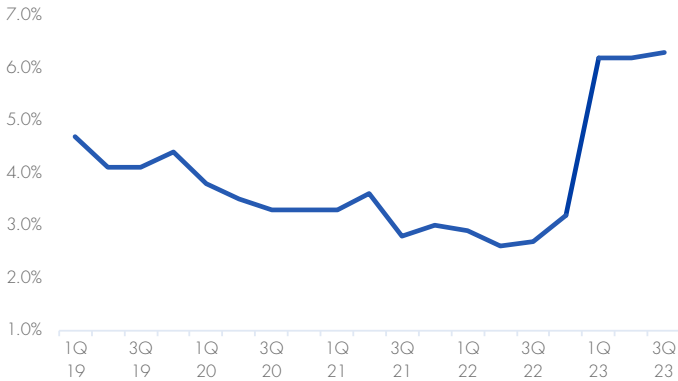
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Multifamily deliveries remain limited as no projects of significance came online during the third quarter. Developers have completed roughly 160 units to this point in 2023.
- The development pipeline remains elevated across the region. Projects totaling approximately 2,600 units were under construction at the end of the third quarter, up roughly 30 percent from one year ago.
- While recent construction activity has been on the rise, multifamily permitting has continued to slow in recent months. Developers pulled permits for fewer than 50 units during the third quarter, down from roughly 110 units in the second quarter.
- **FORECAST:** Annual deliveries are forecast to reach a cyclical high in 2023, due in large part to delays in projects that were originally scheduled to come online last year. Projects totaling 1,600 units are expected to come online in 2023.

Vacancy ended the third quarter at 6.3 percent.

VACANCY TRENDS



Sources: Northmarq, CoStar, Reis

VACANCY

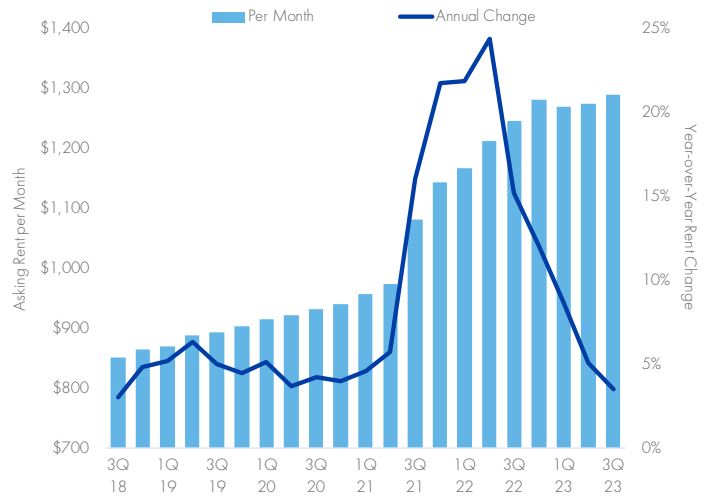
- The local vacancy rate inched up 10 basis points during the third quarter, following a steeper rise earlier in the year. Vacancy ended the third quarter at 6.3 percent.
- During the past 12 months, vacancy has spiked 360 basis points. Prior to the recent run-up, area vacancy had generally ranged between 2.5 percent and 4.0 percent since the beginning of 2020.
- With deliveries minimal to this point in 2023, vacancy in the Class A segment has remained in a tight band. The Class A vacancy rate was 5.3 percent in the third quarter, just 40 basis points higher than the year-end 2022 figure.
- **FORECAST:** Vacancy in Albuquerque is forecast to end 2023 at 6.5 percent, more than doubling the rate from the end of 2022. Area vacancy spiked at the beginning of this year but has been mostly stable in recent months.

RENTS

- Asking rents trended higher for a second consecutive quarter after falling in the first three months of the year. Apartment rents in Albuquerque rose 1.3 percent during the third quarter, reaching \$1,291 per month.
- Local rents rose 3.5 percent during the past 12 months. Prior to the steep rent gains in 2021 and 2022, annual rent growth averaged roughly 2.5 percent per year from 2010 to 2020.
- Combined rents for Class B and Class C properties posted solid gains in recent months, offsetting rent declines in the preceding quarter. Year over year, asking rents in middle-tier and lower-tier units rose 3.2 percent to \$1,081 per month.
- **FORECAST:** Area rents are projected to inch higher in the final months of the year. Asking rents are forecast to finish 2023 at \$1,305 per month, an annual gain of 1.7 percent.

Local rents rose 3.5 percent during the past 12 months.

RENT TRENDS



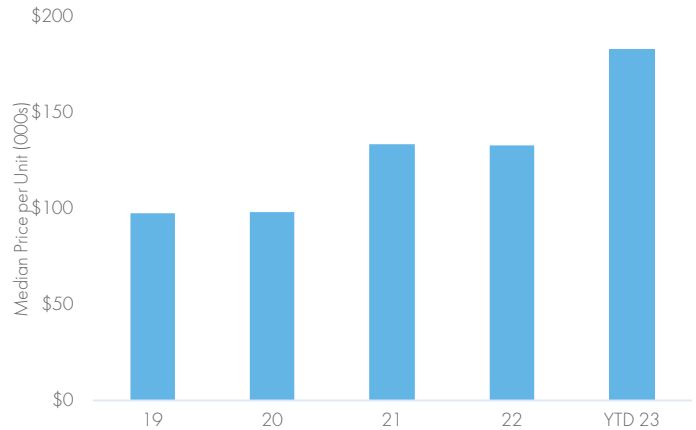
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Transaction volume in the Albuquerque multifamily investment market received a substantial boost in recent months as a handful of properties changed hands during the third quarter. However, sales volume to this point in 2023 is down 70 percent from the same period last year.
- In transactions where pricing was available, the median price thus far in 2023 is \$182,900 per unit, up 37 percent from the median price last year. Nearly all of the properties that have sold to this point in the year were built prior to 2000. In 2022, newer properties sold at a more rapid clip, with assets built as recently as 2000 making up roughly 40 percent of annual sales.
- Cap rates continued to rise in recent months, averaging 6 percent during the third quarter. Cap rates were averaging roughly 4.5 percent one year ago.

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

INVESTMENT TRENDS



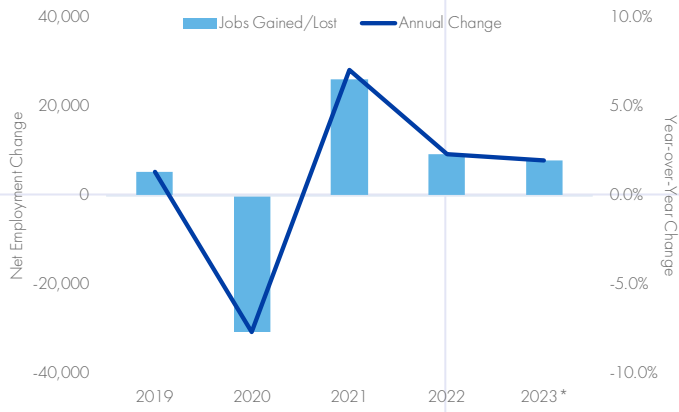
Sources: Northmarq, CoStar

LOOKING AHEAD

Developers are expected to accelerate the pace of multifamily deliveries in the closing months of the year, introducing the competitive impact of elevated levels of new supply into the Albuquerque market for the first time since 2015. In recent years, undersupplied conditions have prevailed, but there could be a modest supply-demand imbalance for the next few quarters. Roughly 1,600 units are scheduled for delivery in 2023, which will mark a cyclical peak for deliveries in a single year. Looking ahead to 2024, the pace of new construction should slow, and will likely receive a boost as the local labor market continues to be bolstered by companies expanding in the region.

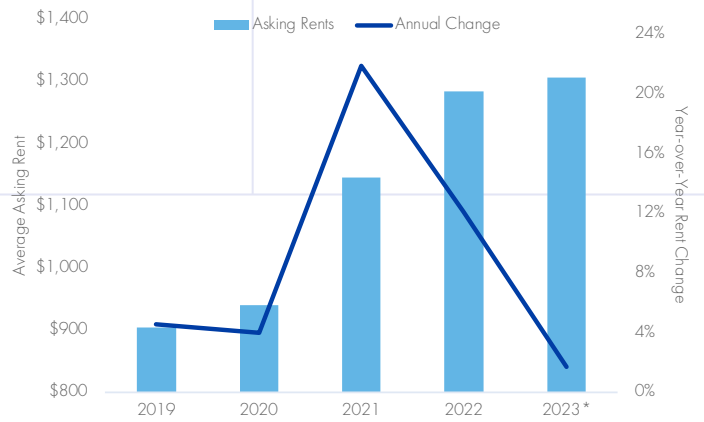
The local multifamily investment market gained momentum during the third quarter, after minimal activity in the first half of the year. While properties may continue to trade through the end of the year, overall deal volume in 2023 will lag levels recorded in each of the past two years. Properties that sell in the closing months of 2023 will likely record cap rates in the low- to mid-6 percent range, as the expectations gap continues to narrow. There is some uncertainty in the market, generally surrounding current and future occupancy levels. Prior to 2023, operating conditions in the Albuquerque region had been quite tight, allowing operators to push rental rates higher as leases expired.

EMPLOYMENT FORECAST



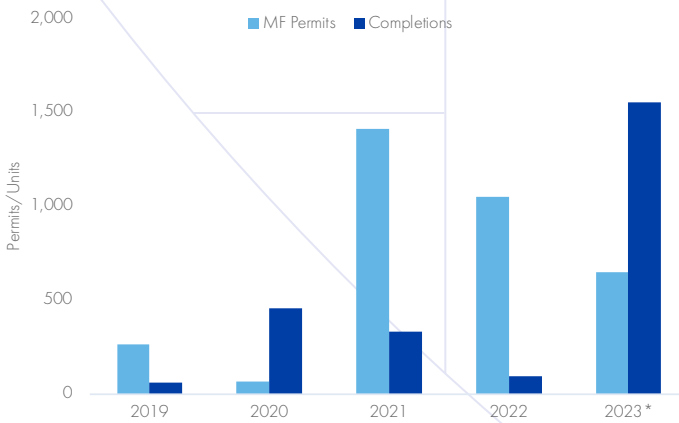
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



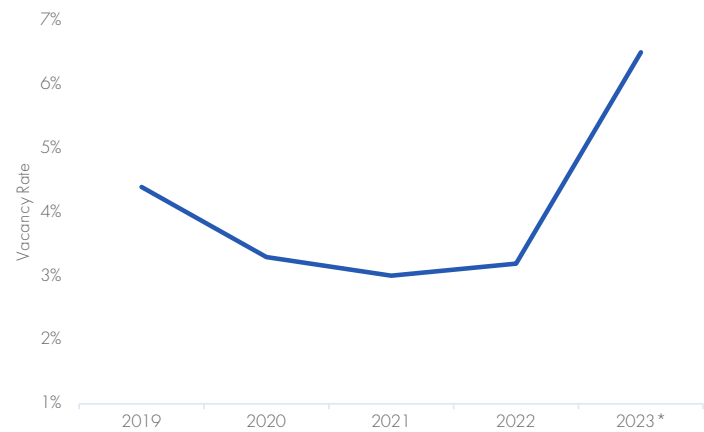
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, CoStar, Reis





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