

Greater Albuquerque Multifamily

Strong Job Gains and Rent Increases Driving Investment

Highlights

- > The Albuquerque multifamily market closed 2018 on an upswing, with rents posting their strongest increase in years and sales activity elevated. An improving labor market is fueling the market.
- > Asking rents rose 2.2 percent in the fourth quarter and advanced 4.9 percent for the full year. Average asking rents ended 2018 at \$865 per month.
- > Vacancy rose 40 basis points during the fourth quarter, reaching 4.8 percent. The vacancy rate crept higher in response to an uptick in new units delivered in the second half of the year.
- > The investment market posted a particularly strong year in 2018, with sales velocity rising by approximately 50 percent. Elevated investor demand caused cap rates to compress into the low-6 percent range on average.

Albuquerque Multifamily Market Overview

The Albuquerque multifamily market posted some of its strongest rent gains on record in 2018, with the most rapid growth occurring in the second half of the year. Rents are rising in part because of the local market's accelerating job growth. Employers added more jobs in Albuquerque in 2018 than they had in any single year in more than a decade. This job growth is sparking demand for apartments, coming at a time when construction has been fairly active. Developers delivered approximately 525 units to the market in 2018, which pushed the vacancy rate higher. The pace of development is expected to slow in the year ahead, which should allow for the vacancy rate to tighten a bit.

Market Indicators

4Q/2018

Vacancy	↑
Rents	↑
Transaction Activity.....	↑
Price Per Unit.....	↑
Cap Rates.....	↓

Summary Statistics

Albuquerque Market

Vacancy Rate.....	4.8%
- Change from 4Q 2017 (bps).....	+70
Asking Rents (per month).....	\$865
- Change from 4Q 2017.....	4.9%
Median Sales Price (per unit YTD).....	\$79,200
Average Cap Rate (YTD).....	6.1%

Albuquerque Multifamily Market Overview (cont.)

Sales velocity ticked up in the fourth quarter, providing a strong close to an active year in the Albuquerque investment market. Transaction counts in 2018 nearly matched the total sales volume for 2016 and 2017 combined. Investors are responding to the positive economic news in the market, as well as the strongest recorded rent growth in more than a

decade. Property operating fundamentals should record another strong year in 2019, which is expected to translate into continued activity in the local investment market. Prices for individual deals are sometimes challenging to obtain, but cap rates appear to have settled in at approximately 6 percent on average.

Submarket Statistics

Submarket Name	4Q 2018 Vacancy	4Q 2017 Vacancy	Annual Vacancy Change (BPS)	4Q 2018 Rents	4Q 2017 Rents
Northeast	2.8%	2.7%	10	\$922	\$847
Downtown/Southwest	3.4%	4.4%	(100)	\$865	\$839
North Central	5.3%	3.5%	180	\$779	\$768
Southeast	5.7%	5.9%	(20)	\$742	\$721
Northwest	6.1%	4.7%	140	\$696	\$658

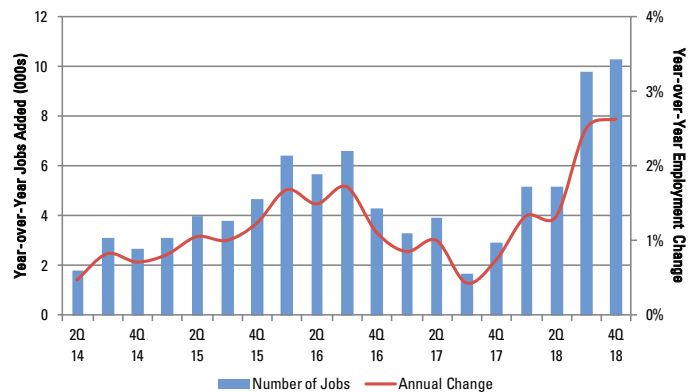
Submarket Map



Employment

- > Job growth in Albuquerque was particularly strong in 2018. Total employment expanded by 2.6 percent last year, with the addition of 10,300 net new jobs. This marked the strongest single year of job growth in Albuquerque since 2006.
- > Growth in high-wage, white-collar positions has been leading the way. The professional and business services sector expanded by 6.4 percent in 2018, adding nearly 4,000 new jobs. This more than doubled the sector's rate of growth in 2017.
- > The leisure and hospitality sector posted a growth rate of 4.5 percent in 2018, with the addition of 1,900 new jobs. Projects adding more than 300 new hotel rooms have been completed in the Albuquerque metro area, supporting some of the growth in the hospitality sector.
- > **Forecast:** After spiking in 2018, employment in Albuquerque is forecast to expand at a pace closer to the national average in the year ahead. Employers are forecast to add approximately 6,000 net new jobs in 2019, a 1.5 percent expansion.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

2018 marked the strongest single year of job growth in Albuquerque since 2006

Vacancy

- > Vacancy in Albuquerque rose 40 basis points during the fourth quarter, with the rate reaching 4.8 percent. Some of the vacancy increase was the result of new inventory entering the market in the second half of the year. It may take a few quarters for the new inventory to be fully absorbed.
- > Vacancy rose 70 basis points from 4.1 percent to 4.8 percent in 2018. The market's long-term average vacancy rate since 2010 is 4.2 percent.
- > After tightening in both 2016 and 2017, the vacancy rate in Class A buildings ticked higher in the past year. Vacancy in Class A apartment complexes rose 140 basis points in 2018, ending the year at 5.3 percent.
- > **Forecast:** After rising in 2018, vacancy is forecast to dip slightly in the year ahead. Vacancy is expected to end 2019 at 4.6 percent, down 20 basis points.

Vacancy Trends



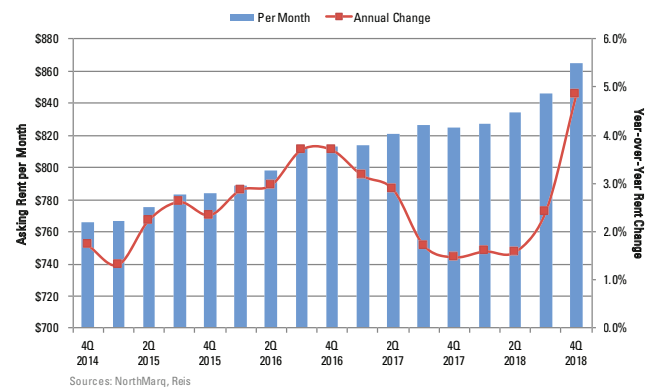
Sources: NorthMarq, Reis

Vacancy rose 70 basis points from 4.1 to 4.8 percent in 2018

Rents

- > Asking rents in Albuquerque rose by 2.2 percent during the fourth quarter, building on a 1.4 percent increase in the preceding three months. This proved to be the strongest consecutive two quarters of rent growth in more than 10 years.
- > Metrowide asking rents ended 2018 at \$865 per month, 4.9 percent higher than one year earlier. The rise in 2018 more than doubled the average rental increase of just 2.2 percent annually from 2013-2017.
- > Rent growth was recorded across all property classes, with the largest gains in the Class A segment. Class A asking rents spiked by more than 5 percent in 2018, ending the year at \$1,008 per month. In Class B and Class C buildings, rent increases averaged 4.2 percent for the year.
- > **Forecast:** With vacancy expected to tighten, rents are likely to push higher. Asking rents are forecast to increase 3.7 percent in 2019 to \$897 per month.

Rent Trends

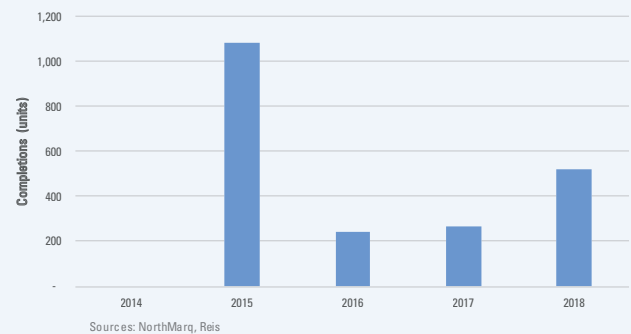


The end of 2018 had the strongest consecutive two quarters of rent growth in more than 10 years

Development and Permitting

- > Approximately 525 apartment units were delivered in Albuquerque in 2018, including nearly 300 units in the fourth quarter. Construction has been fairly uneven in recent years, but deliveries have averaged 425 units per year during the past five years.
- > The pace of development is likely to slow in the near term, with fewer than 150 units currently under construction. There are several projects in various planning phases, particularly in the Downtown area, that could break ground in the next year or two.
- > Multifamily permitting has been slowing in recent years. Permits for fewer than 150 units were issued in 2018, down from approximately 250 permits in 2017 and about 500 permits in 2016.
- > **Forecast:** Approximately 125 apartments are scheduled to be delivered in 2019; this would mark the lowest annual total of new units under construction since 2014.

Development Trends



Multifamily permitting has been slowing in recent years

Multifamily Sales

- > Sales activity ticked up by about 10 percent from the third quarter to the fourth quarter, and sales velocity in 2018 was up considerably from 2017 levels.
- > In transactions where sales prices have been reported, the median price rose in the fourth quarter to approximately \$80,000 per unit. The median price for the full year was approximately \$79,200 per unit.
- > Cap rates were flat in the fourth quarter. For the full year, cap rates averaged approximately 6.1 percent, about 40 basis points lower than in 2017.

Investment Trends



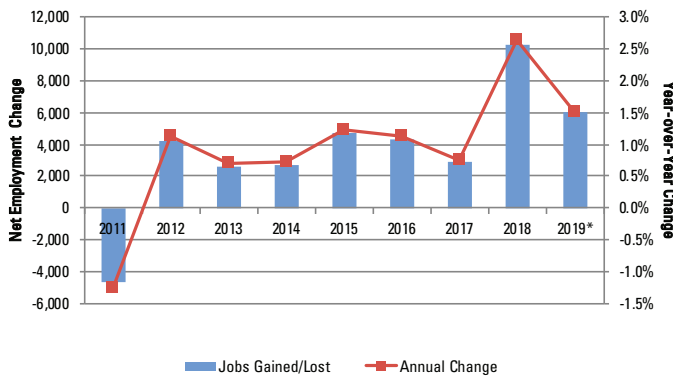
Sales velocity in 2018 was up considerably from 2017 levels

Looking Ahead

The strengthening Albuquerque economy is expected to continue to support the local multifamily market in 2019. Job growth is likely to spark renter demand for units, while deliveries of new projects are slated to slow. This should allow for another year of healthy rent growth, which had been fairly modest in Albuquerque in recent years before spiking in 2018. The pace of job growth has been inconsistent in recent years, but the early outlook for 2019 is optimistic, as most industries in the metro area are now in expansion mode.

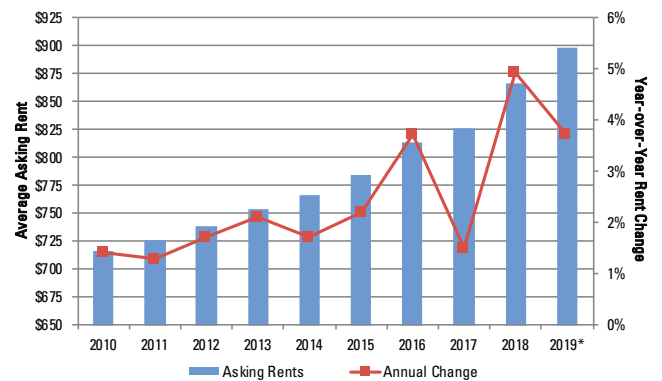
Investment demand for apartment properties surged in 2018, with transaction activity increasing by approximately 50 percent from the preceding year. While this sort of activity spike is unlikely to repeat itself in 2019, demand is expected to remain healthy, and properties should continue to change hands. Cap rates have compressed in Albuquerque, but local properties will still offer a yield premium when compared to assets in neighboring markets. Investors are also expected to respond favorably to the improving operating conditions, particularly as rents continue to creep higher.

Employee Forecast



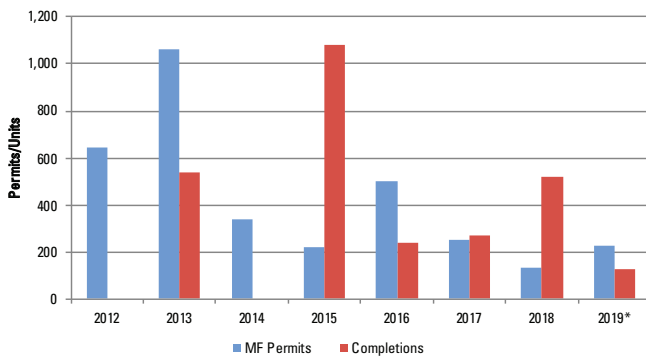
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



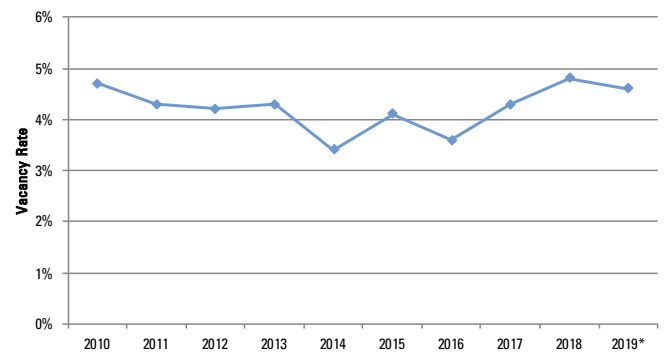
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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