

Albuquerque Multifamily

Vacancy Ticks Lower, Rents on the Rise

Highlights

- > Conditions strengthened in the Albuquerque multifamily market during the first quarter. Employers continued to expand payrolls, causing vacancy to tighten and allowing rents to rise.
- > The vacancy rate ended the first quarter at 4.7 percent, down 10 basis points from the previous quarter. The lowest vacancy rates are being recorded in Class B and Class C properties.
- > Year over year through the first quarter, asking rents spiked 5.3 percent to \$871 per month, although the strongest gains were recorded in the second half of last year.
- > Apartment sales activity was limited during the first quarter, but there were clear signs of a positive investment climate. In transactions where pricing was available, the median price continued on an upward trajectory and cap rates compressed below 6 percent on average.

Albuquerque Multifamily Market Overview

The Albuquerque multifamily market had a strong start to 2019. With employers continuing to expand payrolls, renter demand for apartments continued to build, pushing the local vacancy rate lower in the first quarter. A significant factor driving the vacancy rate lower as the economy expands has been a slowdown in new construction. In recent years, developers have been completing an average of approximately 500 units per year, but the total inventory growth this year will be far more modest. With supply-side pressures limited, rents continue to rise at a sustainable pace.

Market Indicators

Quarterly Changes	1Q/2019
Vacancy	↓
Rents	↑
Transaction Activity.....	↓
Price Per Unit.....	↑
Cap Rates.....	↓

Summary Statistics

Albuquerque Market

Vacancy Rate.....	4.7%
- Change from 1Q 2018 (bps).....	+30
Asking Rents (per month).....	\$871
- Change from 1Q 2018.....	+5.3%
Median Sales Price (Per unit YTD).....	\$97,700
Average Cap Rate (YTD).....	5.8%

Albuquerque Multifamily Market Overview (cont.)

Sales activity during the first quarter was limited, after a very active 2018. While only a handful of properties sold, the investment climate remained favorable. Prices continue to push higher, with the median price approaching \$100,000 per unit, nearly twice as high as the median

price as recently as six years ago. Cap rates dipped below 6 percent during the first quarter, a decline of approximately 30 basis points from the 2018 average.

Submarket Statistics

Submarket Name	1Q 2019 Vacancy	1Q 2018 Vacancy	Annual Vacancy Change (BPS)	1Q 2019 Rents	1Q 2018 Rents
Northeast	2.8%	3.0%	(20)	\$1,005	\$944
Downtown/Southwest	4.7%	5.1%	(40)	\$829	\$791
North Central	4.8%	3.6%	120	\$843	\$801
Southeast	5.6%	5.8%	(20)	\$726	\$711
Northwest	5.9%	4.8%	110	\$915	\$865

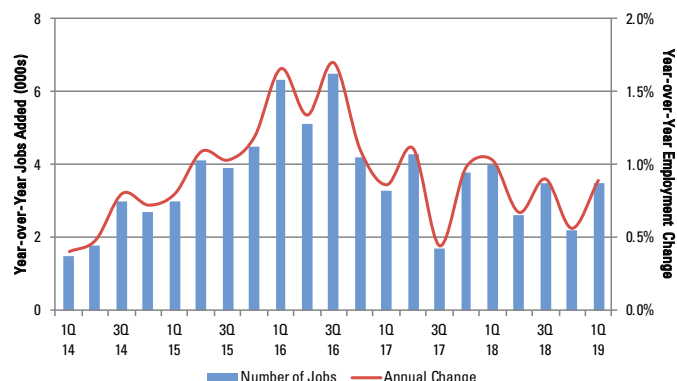
Submarket Map



Employment

- > Employers in Albuquerque added jobs at a steady pace during the first quarter. During the 12-month period ending in the first quarter, employers had expanded payrolls 0.9 percent with the addition of 3,500 new jobs.
- > Expansion in the professional and business services sector is accounting for a significant share of the overall job creation. Year over year, the sector has expanded by 3.5 percent with the addition of 2,100 new jobs.
- > The government sector has been a drag on growth in recent quarters. Led by cuts at the state level, the government sector contracted by 1.9 percent in the past 12 months, with the loss of 1,600 jobs. That trend may change course in the coming quarters, as the state has been holding job fairs to fill 1,000 vacant positions.
- > **Forecast:** Employers are forecast to add approximately 4,500 workers in Albuquerque in 2019, a 1.1 percent expansion. Growth has averaged approximately 1 percent annually since 2015.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Year over year, the professional and business sector has expanded by 3.5 percent

Vacancy

- > After rising late last year, vacancy in Albuquerque inched down 10 basis points in the first quarter, reaching 4.7 percent.
- > The market recorded a year-over-year vacancy increase of 30 basis points through the first quarter. One year ago, the rate had pushed up 40 basis points.
- > While vacancy ticked higher in Class A properties, the rate fell in Class B and Class C units. The combined vacancy for Class B and Class C properties reached 4.1 percent in the first quarter, 10 basis points lower than one year earlier.
- > **Forecast:** With the local economy adding jobs and the supply of apartments expected to grow very modestly in 2019, vacancy should trend lower. The local vacancy rate is forecast to dip 30 basis points in 2019, ending the year at 4.5 percent.

Vacancy Trends



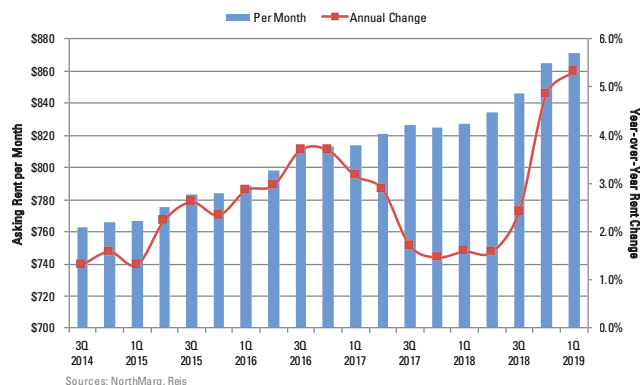
Sources: NorthMarq, Reis

The market recorded a year-over-year vacancy increase of 30 basis points through the first quarter

Rents

- > After a 2.2 percent spike in the final three months of 2018, asking rents rose a more sustainable 0.7 percent in the first quarter, creeping up to \$871 per month.
- > While there is some quarterly volatility, annual rent growth is accelerating. During the past 12 months, asking rents have spiked 5.3 percent. As recently as one year ago, rents were growing at an average annual pace of approximately 2 percent.
- > The Northeast is the only submarket in the Albuquerque market where rents are above \$1,000 per month. During the past 12 months, asking rents in the Northeast have increased 6.5 percent to \$1,005 per month.
- > **Forecast:** Asking rents are forecast to rise 4 percent in 2019, ending the year at approximately \$900 per month.

Rent Trends

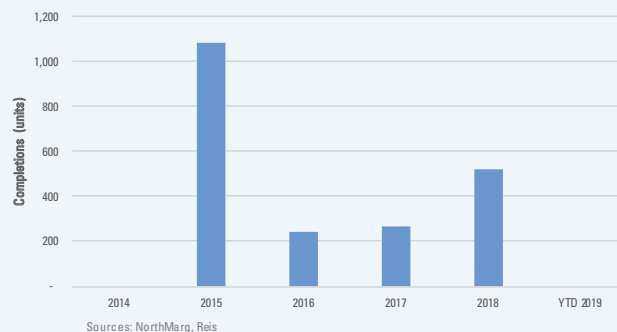


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Development and Permitting

- > Construction slowed during the first quarter, when no significant projects were delivered. During the fourth quarter of last year, nearly 300 units came online. Approximately 525 units have been delivered during the past four quarters.
- > After developers delivered more than 2,000 apartment units since the beginning of 2015, the development pipeline has thinned out in recent quarters. Fewer than 150 units are currently under construction.
- > Multifamily permitting was very modest during the first quarter, mirroring the trend that persisted throughout 2018. Approximately 250 multifamily permits are forecast to be issued in 2019.
- > **Forecast:** Developers are expected to complete approximately 100 new apartment units in 2019, down from more than 500 units in the previous year. This year's total is expected to be the lowest figure since 2014.

Development Trends



Fewer than 150 units are currently under construction

Multifamily Sales

- > After a very active 2018, sales velocity got off to a slower start in 2019. Sales velocity was down approximately 80 percent from the fourth quarter of last year. Activity to start the year was also down about 80 percent from first-quarter 2018.
- > In transactions where sale prices have been reported, the median price continued to creep higher. The median price during the first quarter was approximately \$97,700 per unit, up from a median price of \$83,000 per unit in 2018.
- > Cap rates compressed slightly in the first quarter, averaging 5.8 percent, down from 6.1 percent in 2018.

Investment Trends



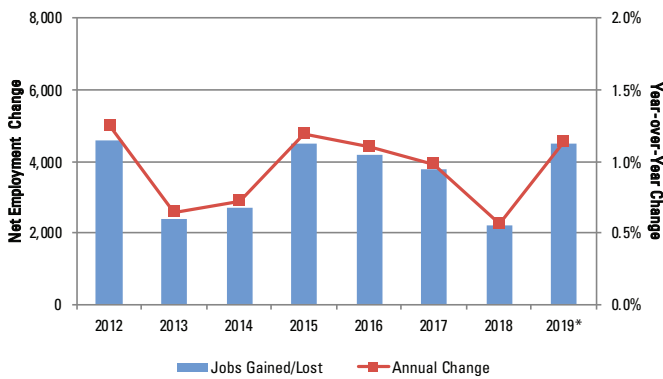
Activity to start the year was down about 80 percent from first-quarter 2018

Looking Ahead

The Albuquerque apartment market is expected to record above-average performance in 2019. While many markets in the Southwest are in the middle of a rental construction boom, developers in Albuquerque will make only modest additions to inventory during the next 18-24 months. With supply-side pressures minimal, the local vacancy rate is expected to inch lower, and operators should be able to implement steady rent increases. The wild card in Albuquerque will be employment growth. The market has successfully attracted companies from nearby states in recent years, but the ability to continue to bring new employers to the market will play a large role in determining the growth rate in renter demand for apartments.

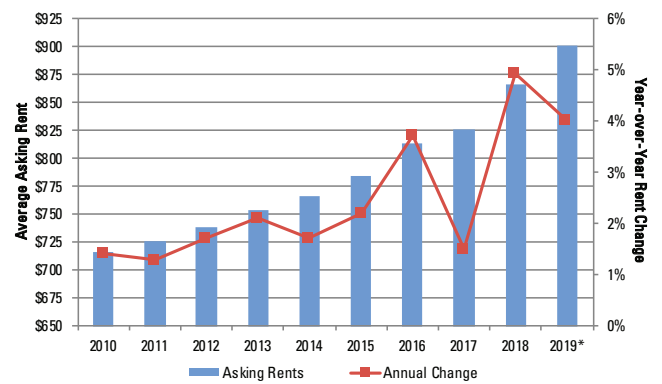
The investment market in Albuquerque got off to a bit of a slower start during the first quarter, but the expectation is activity should gain momentum before the end of the year. Early indications show sales velocity picked up early in the second quarter, setting the stage for an acceleration of transaction activity in the second half of the year. In the buildings that have sold, prices have been on the rise, with a few properties trading above \$100,000 per unit and the median price building on gains recorded in recent quarters. The strong property performance has also fueled cap rate compression. The average cap rate dipped below 6 percent during the first quarter.

Employee Forecast



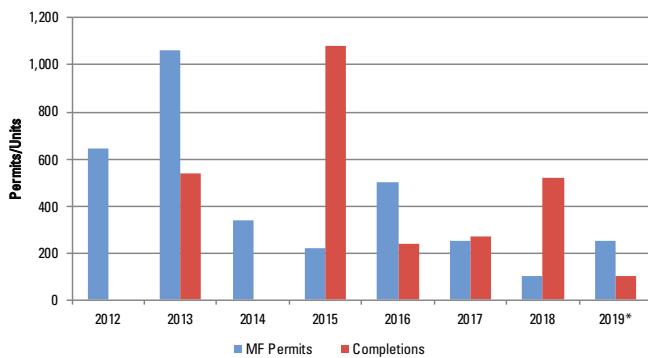
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



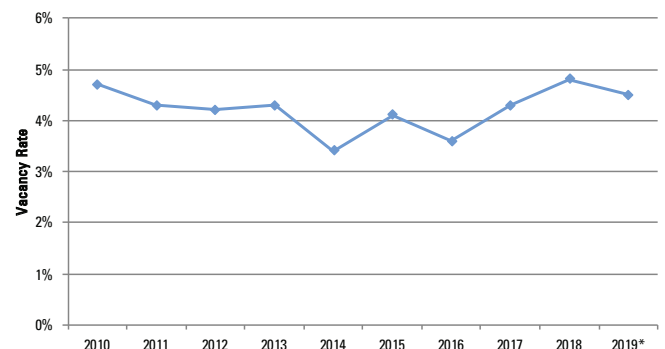
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio of more than \$55 billion and the multi-year tenure of our more than 500 people.

For more information, contact:

Cynthia Meister

VICE PRESIDENT – INVESTMENT SALES

505-219-0724

cmeister@northmarq.com

Trevor Koskovich

PRESIDENT – INVESTMENT SALES

T 602.952.4040

tkoskovich@northmarq.com

Pete O'Neil

DIRECTOR OF RESEARCH

602.508.2212

poneil@northmarq.com

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