

Albuquerque Multifamily

Vacancy Rate Records Steep Decline

Highlights

- > Apartment property performance in Albuquerque strengthened during the second quarter. With competition from new supply limited, vacancy dropped and rents rose.
- > The vacancy rate fell 60 basis points from the first quarter to the second quarter, dipping to 4.1 percent. Year over year, the rate is down 30 basis points.
- > The pace of rent growth accelerated during the second quarter. Asking rents rose to \$889 per month, up 6.3 percent year over year.
- > Multifamily investment activity surged during the second quarter. Prices have trended higher—the median price in sales in the first half of the year was approximately \$97,700 per unit—while cap rates have averaged 6.3 percent.

Albuquerque Multifamily Market Overview

The Albuquerque multifamily market posted strong performance during the second quarter, spurred on by healthy levels of net absorption and minimal inventory growth thus far in 2019. In the second quarter, the local vacancy rate fell at a faster pace than in any quarter in several years. Vacancy reached its lowest point in nearly two years at the midway point of 2019, and with minimal inventory growth forecast for the second half of the year, conditions will likely tighten a bit in the coming quarters. This should allow for continued rent gains; the current pace of rent growth is approximately twice the market's long-term average.

Q2 Snapshot

Albuquerque Market



Market Fundamentals

Vacancy	4.1%
- Year Over Year Change	-30 bps
Asking Rent	\$889
- Year Over Year Change	+6.3%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$97,700
Cap Rates (Avg YTD)	6.3%



Construction Activity

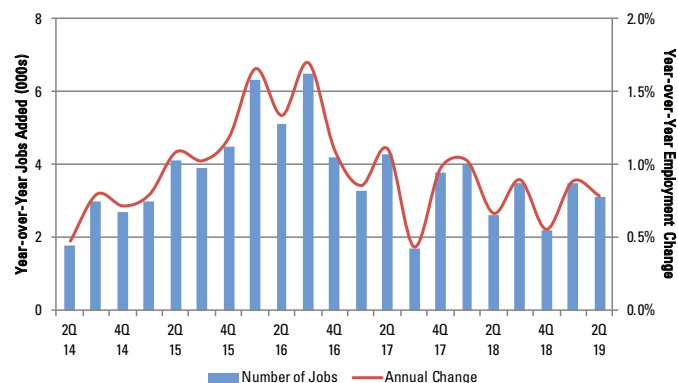
Units Under Construction	296
Units Delivered YTD	58

Sales of apartment properties accelerated during the second quarter, and preliminary indications show that momentum carried over to the third quarter. Investors are responding to a market that is showing some clear signs of strengthening, as renter demand has gained enough momentum to absorb the bulk of the new units delivered in recent years. While activity picked up to close the first half of the year, cap rates also inched higher, topping 6 percent on average.

Employment

- > Employment in Albuquerque has been growing at a modest pace. Year over year through the second quarter, total employment in the area expanded 0.8 percent with the addition of 3,100 jobs. In the period ending one year earlier, 2,600 new positions had been added.
- > The leisure and hospitality sector has been an accelerating source of payroll growth. Employment in the sector expanded by more than 7 percent in the past 12 months, with the addition of 3,200 jobs. One year ago, growth in the sector was approximately 1 percent.
- > While the local economy strengthened in recent years, the retail sector is not yet in expansion mode. Retail employment contracted 2.2 percent in the past year, cutting nearly 1,000 workers. Local retailers have shed jobs in each of the past three years.
- > **Forecast:** Employment growth has been uneven in Albuquerque, with some sectors posting healthy gains while others contract. This year, employers are expected to expand payrolls 1 percent with the addition of 4,000 jobs.

Employment Overview



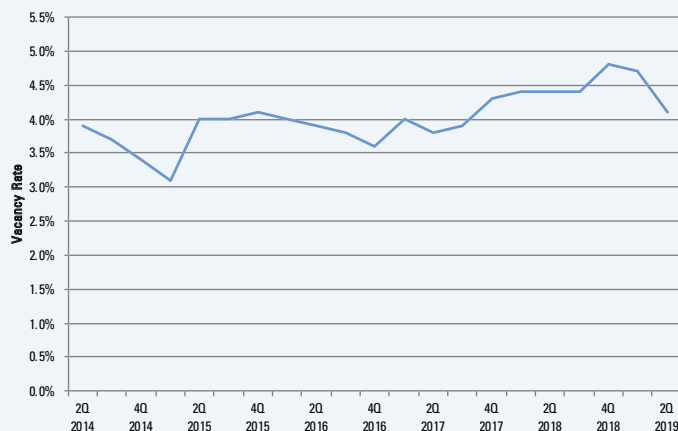
Sources: NorthMarq, Bureau of Labor Statistics

Year over year through the second quarter, total employment in the area expanded 0.8 percent

Vacancy

- > The second quarter was a particularly strong period for absorption of apartment units. The vacancy rate fell 60 basis points in the second quarter, retreating to just 4.1 percent. This was the largest quarterly vacancy decline in Albuquerque in nearly 10 years.
- > Year over year, vacancy is down 30 basis points. While the improvement is modest, it does represent a shift in recent vacancy trends. Until the second quarter, market vacancy had been trending higher when compared with year-earlier periods.
- > The segments of the market that recorded the greatest vacancy tightening were the Class B and Class C properties. The combined vacancy rate for these properties declined 100 basis points in the first half of 2019.
- > **Forecast:** The local vacancy rate is forecast to end 2019 at 4.3 percent, 50 basis points lower than the figure at the end of 2018. Vacancy rose in both 2017 and 2018.

Vacancy Trends



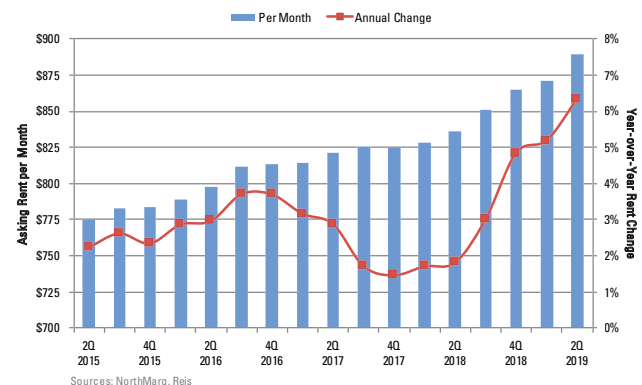
Sources: NorthMarq, Reis

The vacancy rate fell 60 basis points in the second quarter

Rents

- > The pace of rent growth accelerated during the second quarter, reflecting the healthy demand for apartment properties. Asking rents rose 2.1 percent in the second quarter, bringing the total increase for the first half of the year to 2.8 percent. In 2018, rent growth in the first half of the year was limited to 1.2 percent.
- > Current asking rents are \$889 per month, 6.3 percent higher than one year ago. Last year at this time, rents were advancing at an annual rate of less than 2 percent.
- > Rents in Class A buildings have been on an accelerating upward climb. Asking rents in Class A buildings reached \$1,037 per month in the second quarter, reflecting an annual increase of 6.9 percent.
- > **Forecast:** Asking rents are forecast to rise approximately 5 percent in 2019, ending the year at more than \$900 per month.

Rent Trends

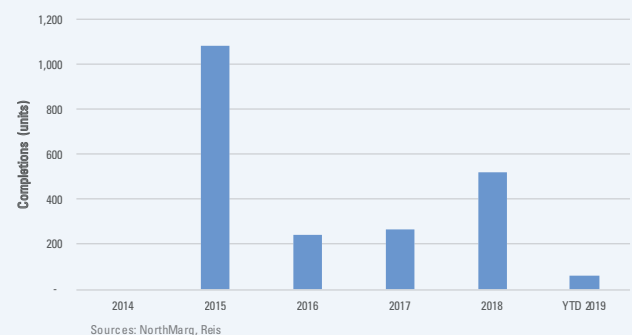


Asking rents rose 2.1 percent in the second quarter

Development and Permitting

- > After no significant new apartment projects were delivered in the first quarter, construction activity ticked higher during the second quarter. Projects totaling approximately 60 units came online in the second quarter.
- > The development pipeline remains minimal. Only a few significant apartment projects are currently under construction, totaling fewer than 300 units.
- > Multifamily permitting was minimal to start the year, but gained momentum during the second quarter. Developers pulled permits for approximately 100 multifamily units during the second quarter. Approximately 250 multifamily permits are forecast to be issued in 2019.
- > **Forecast:** Developers are expected to complete approximately 130 new apartment units in 2019, down from more than 500 units in the previous year.

Development Trends

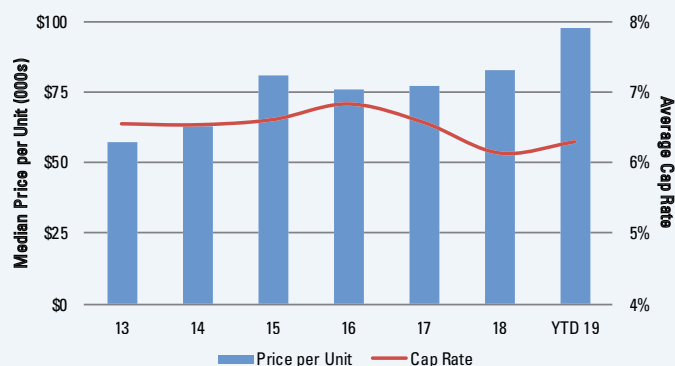


Projects totaling approximately 60 units came online in the second quarter

Multifamily Sales

- > After a slow start to the year, sales velocity gained momentum during the second quarter. Activity more than tripled levels from the first quarter. Despite the increase, the number of sales in the first half of this year is down from the same period in 2018.
- > In transactions where sales prices have been reported, the median price was fairly consistent from the first quarter to the second quarter. In the first half of the year, the median price was approximately \$97,700 per unit, up from a median price of \$83,000 per unit in 2018.
- > After dipping below 6 percent to start the year, cap rates rose during the second quarter. Cap rates averaged 6.3 percent in the first half of this year, slightly higher than the 2018 average.

Investment Trends



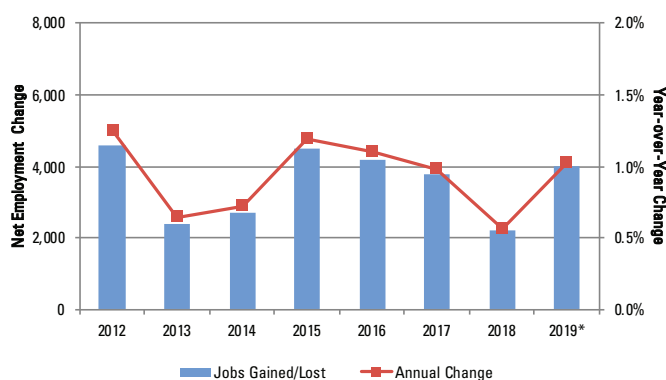
Activity more than tripled levels from the first quarter

Looking Ahead

The outlook for the Albuquerque multifamily market has a measure of uncertainty. While many of the trends being recorded are favorable, demand drivers could be stronger. Employment trends in Albuquerque have been choppy in recent periods. A few sectors, such as leisure and hospitality, education and healthcare, and professional and business services have been expanding at very healthy growth rates. While these sectors are contributing to an expanding labor market, several industries continue to contract, even as the economy is fairly healthy. Retail and financial services recorded modest year-over-year cuts, while public-sector payrolls have contracted by more than 2.5 percent. A more consistent pace of employment growth would brighten the local multifamily outlook.

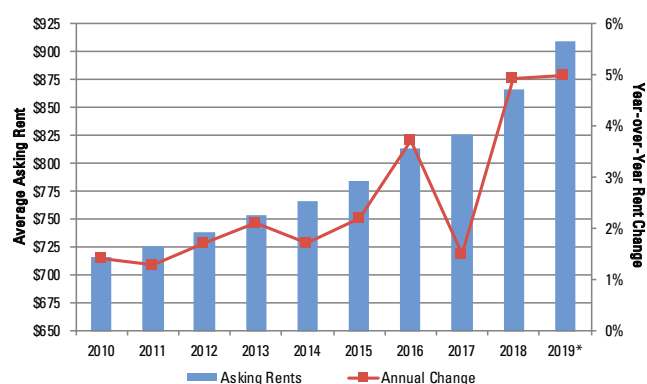
After a slower start to the year, investment activity gained momentum in the second quarter, setting the stage for additional transactions for the remainder of the year. The market's improving fundamentals, highlighted by a sharp vacancy decline and an accelerating pace of rent growth, should continue to draw investors into the market. Cap rates have not shown a clear direction in recent quarters, but current levels in the low-6-percent range are higher than in nearly all of Albuquerque's neighboring markets; this yield premium could attract additional investment in the coming years, particularly as projects delivered in recent years become stabilized.

Employment Forecast



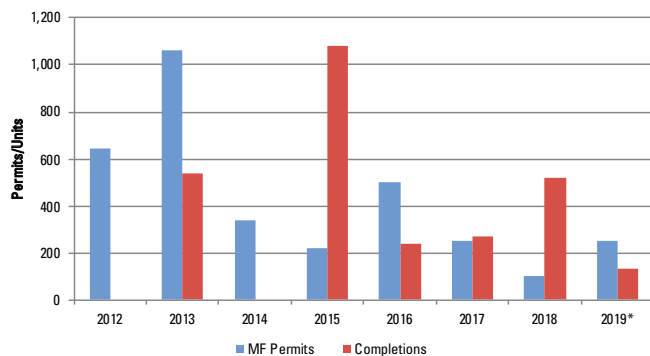
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



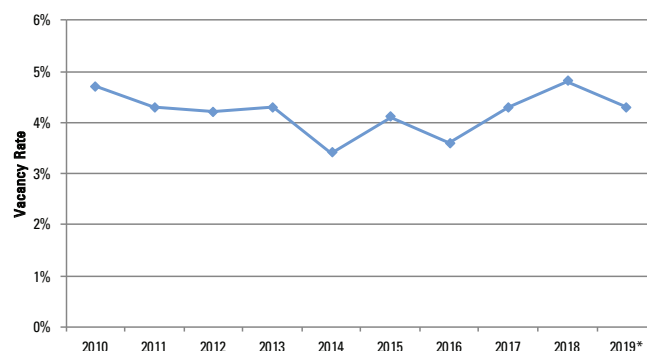
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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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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