

Albuquerque Multifamily




Vacancy Holds Steady, While Rents Continue to Rise

Highlights

- > The Albuquerque multifamily market has improved in recent quarters. The vacancy rate has tightened year over year, and rent growth has topped 5 percent. Demand is healthy, while new supply growth has been limited in 2019.
- > Vacancy in Albuquerque ended the third quarter at 4.1 percent, 30 basis points lower than one year earlier.
- > Asking rents have risen 5.1 percent year over year, reaching \$894 per month. The pace of growth has accelerated during the past year.
- > Multifamily investment activity was steady in the third quarter before slowing in the final few months of the year. The median price was approximately \$70,600 per unit, while cap rates averaged 5.5 percent in the third quarter and 6 percent year to date.

Albuquerque Multifamily Market Overview

The Albuquerque apartment market has had a strong 2019, with demand for units outpacing supply growth. The vacancy rate tightened in the early part of the year and then generally held steady in the following quarters. After more than 500 units were delivered in 2018, new construction totaled fewer than 100 units in 2019. With supply-side pressure limited, the strengthening pace of absorption has occurred in existing units, with the vacancy rate tightening across all property classes. Rents are rising, although the pace of rent growth is likely to cool in 2020 after healthy gains in 2019.

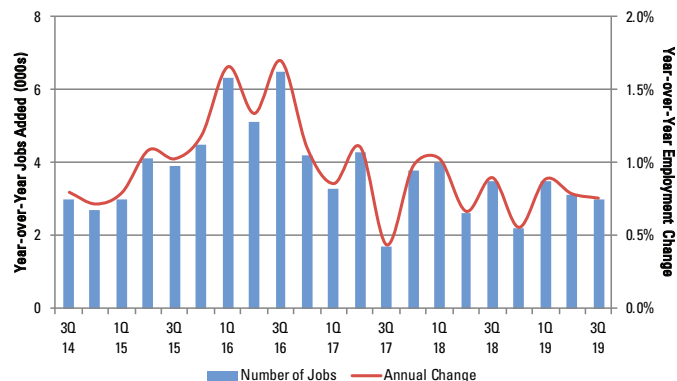
Q3 Snapshot	Albuquerque Market
	Market Fundamentals
	Vacancy 4.1%
	- Year Over Year Change -30 bps
	Asking Rent \$894
	- Year Over Year Change +5.1%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$70,600
	Cap Rates (Avg YTD) 6.0 %
	Construction Activity
	Units Under Construction 296
	Units Delivered YTD 58

Investment activity in Albuquerque in 2019 was staggered, with a number of sales occurring during the second and third quarters, and minimal transaction volume at the beginning and the end of the year. During the third quarter, the average transaction size expanded, with the bulk of the activity occurring in complexes with 150-250 units. Cap rates during the third quarter were approximately 5.5 percent, but the average for the year is closer to 6 percent. With the market forecast to post additional improvement in the coming quarters, cap rates in the mid-5-percent range could remain the market norm.

Employment

- > Employment in Albuquerque maintained its steady pace of growth during the third quarter. Year over year through the third quarter, employers in the market had added 3,000 net new jobs, an expansion of 0.8 percent.
- > While the overall pace of employment has been fairly modest, strong gains have been recorded in the professional and business services sector. Employers have added 2,500 professional jobs in the past year, a 4.1 percent spike. One year ago at this time, growth in the sector was less than 1 percent.
- > One of Albuquerque’s largest employers was on pace to post a significant expansion in 2019. Sandia National Laboratories had a goal to expand its local workforce by 1,100 new jobs in 2019, building on a gain of nearly 650 new positions in 2018.
- > **Forecast:** Local employers were on pace to add 3,500 new jobs in Albuquerque in 2019, and additions in 2020 are forecast to total 4,000 new positions. This represents annual gains of approximately 1 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers have added 2,500 professional jobs in the past year, a 4.1 percent spike

Vacancy

- > Following a steep decline in the second quarter, vacancy held steady at 4.1 percent during the third quarter. Vacancy ticked up above 4 percent at the end of 2017 and has generally trended lower as demand has ticked up and deliveries have slowed.
- > Year over year, the local vacancy rate dipped 30 basis points as of the third quarter. Net absorption of units in the first three quarters of 2019 more than tripled absorption levels from the same period in 2018.
- > Vacancy in Class A units ended the third quarter at 4.8 percent, dipping 10 basis points from the second quarter. Since the end of 2018, vacancy in Class A properties has retreated 40 basis points.
- > **Forecast:** Vacancy was expected to end 2019 at 4.1 percent, 70 basis points lower than at the end of 2018. Looking ahead to 2020, with demand forecast to persist and new construction modest, the rate is expected to dip to 3.8 percent.

Vacancy Trends



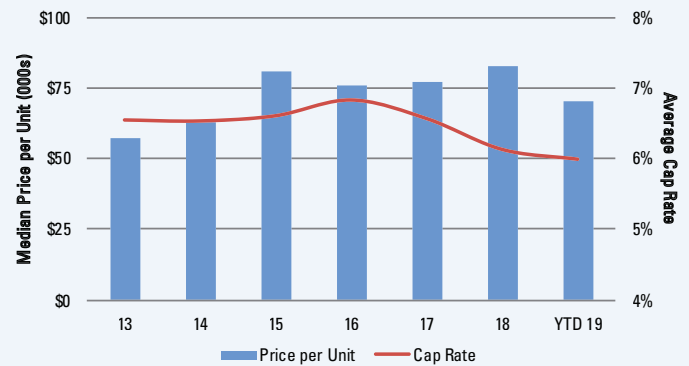
Sources: NorthMarq, Reis

Net absorption in the first three quarters of 2019 more than tripled levels from the same period in 2018

Multifamily Sales

- > Sales activity in 2019 was concentrated in the middle two quarters of the year, with fewer transactions occurring at the beginning and at the end of the year. Activity in 2019 lagged levels from 2018.
- > In transactions where sales prices have been reported, the median price has been approximately \$70,600 per unit. There has been a wide range of prices, with some complexes selling for more than \$100,000 per unit, while other sales were in the \$50,000-per unit range.
- > Cap rates have averaged approximately 6 percent in 2019, and several transactions closed in the third quarter with cap rates around 5.5 percent.

Investment Trends



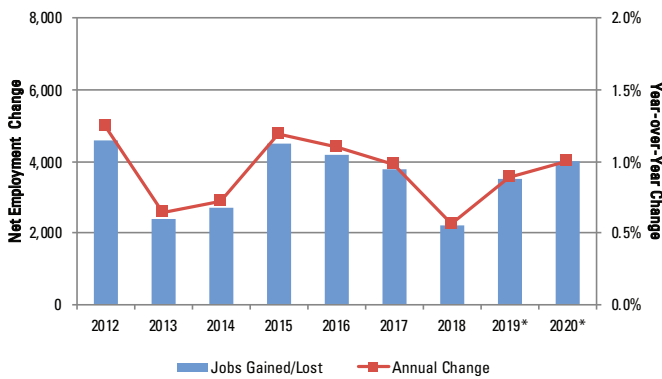
Sales activity in 2019 was concentrated in the middle two quarters of the year

Looking Ahead

The outlook for the Albuquerque multifamily market calls for some additional improvement in the coming quarters. Development of new multifamily rental units has been modest, and employers are adding new jobs at a faster pace than new apartments are being brought online. In 2020, these trends are forecast to continue, with approximately 4,000 net new jobs forecast to be added and only 225 new apartments likely to be delivered. This should support some additional vacancy tightening, setting the stage for another year of rent gains in 2020.

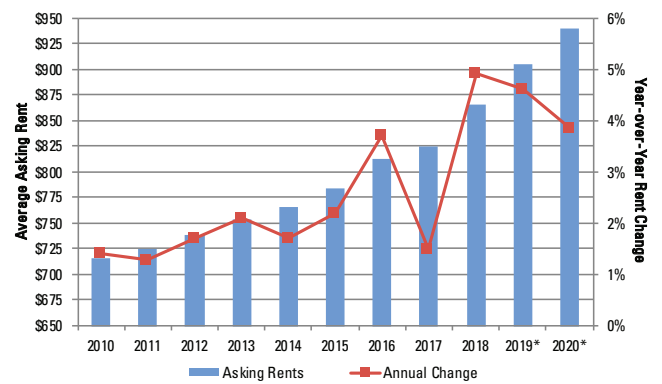
The investment climate in Albuquerque has picked up in recent years, as the market has strengthened and buyers in search of yield have looked to secondary and tertiary markets. This heightened investor interest is reflected in the greater number of sales of larger apartment properties. The pace of activity in 2020 will likely be largely determined by the number of properties made available for acquisition. Cap rates compressed during the second half of 2019, another sign of the increasingly competitive market conditions that are forecast to persist in 2020.

Employment Forecast



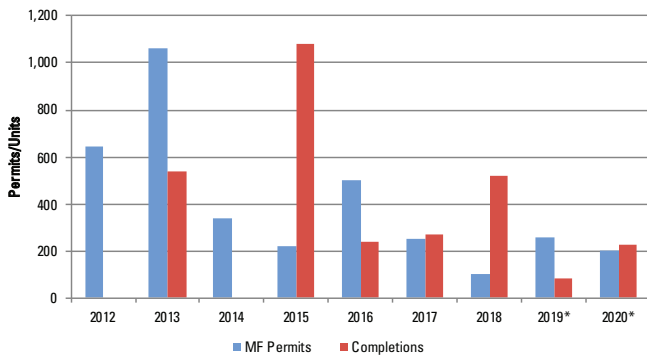
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



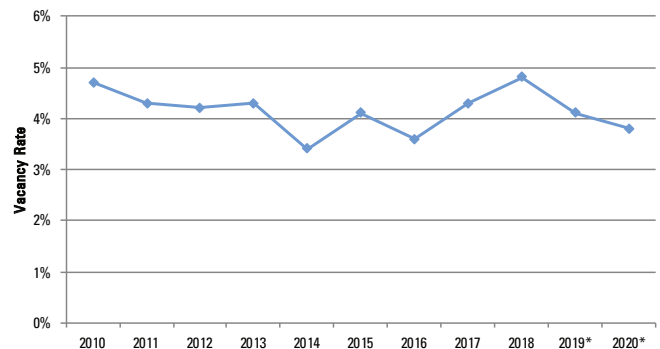
* Year End Forecast
Sources: NorthMarq, Reis

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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