

Albuquerque Multifamily




With Supply Growth Limited, Vacancy Remains Low

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 rose 30 basis points from the third quarter to the fourth quarter. Despite the uptick in the fourth quarter, the rate ended the year at 4.4 percent, 40 basis points lower than at the end of 2018.
- > Asking rents rose 4.5 percent in 2019, reaching \$904 per month, building on a 4.8 percent gain in 2018.
- > After a spike in 2018, investment activity returned closer to historical levels in 2019. The median price was approximately \$67,900 per unit, while cap rates averaged 5.5 percent in the second half of the year and 6 percent for the full year.

Albuquerque Multifamily Market Overview

The Albuquerque apartment market had a strong 2019, with demand for units outpacing modest supply growth. The vacancy rate tightened in 2019, after increasing in each of the previous two years. Construction of new apartments totaled fewer than 100 units in 2019, limiting supply-side pressures. Deliveries are expected to pick up in 2020, but absorption of units should outpace new construction, driving vacancy lower. Rents posted healthy gains during the past two years, and additional increases are forecast for the year ahead.

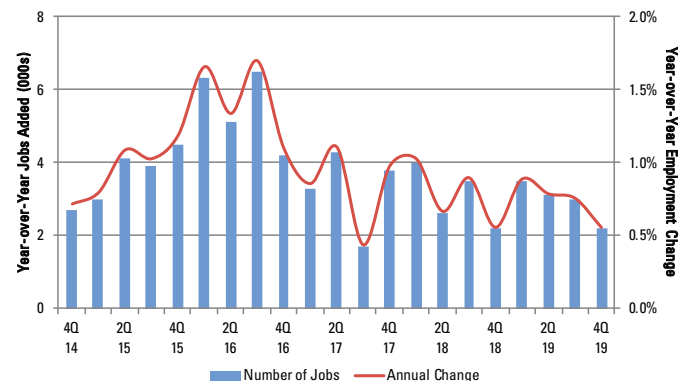
Q4 Snapshot	Albuquerque Market
	Market Fundamentals
	Vacancy 4.4%
	- Year Over Year Change -40 bps
	Asking Rent \$904
	- Year Over Year Change +4.5%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$67,900
	Cap Rates (Avg YTD) 6.0%
	Construction Activity
	Units Under Construction 296
	Units 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 second half of the year, larger transactions led the way, with the bulk of the activity occurring in complexes with 150 units to 300 units. Cap rates during the third and fourth quarters were approximately 5.5 percent, but the average for the year was closer to 6 percent.

Employment

- > In 2019, employers in Albuquerque expanded payrolls 0.6 percent with the addition of 2,200 net new jobs. Annual growth in 2019 was nearly identical to levels recorded in 2018.
- > Growth in the local professional and business services sector outpaced gains recorded across the entire market. The traditionally high-wage sector expanded by nearly 4 percent in 2019, adding 2,400 new positions.
- > A handful of manufacturing companies are expanding in Albuquerque, providing a boost to local payrolls. In 2019, employment in the manufacturing sector expanded by 5.6 percent with the addition of 900 new positions.
- > **Forecast:** Employment growth in Albuquerque is forecast to accelerate in 2020, with local employers expected to add 3,500 new positions, an expansion rate of 0.9 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

In 2019, employment in the manufacturing sector expanded by 5.6 percent

Vacancy

- > Vacancy crept higher in the fourth quarter following strong summer and fall seasons. The rate ticked up 30 basis points from the third quarter to the fourth quarter, reaching 4.4 percent.
- > While the rate rose in the final few months of the year, vacancy declined in 2019 when compared to 2018. At 4.4 percent, vacancy is down 40 basis points from one year earlier.
- > Vacancy in Class A units dipped 40 basis points in the fourth quarter, reaching 4.4 percent. The rate retreated 80 basis points in 2019.
- > **Forecast:** Following an improvement in 2019, the local vacancy rate is expected to tighten again in 2020. Vacancy in Albuquerque is forecast to drop 40 points in the year ahead, reaching 4 percent.

Vacancy Trends



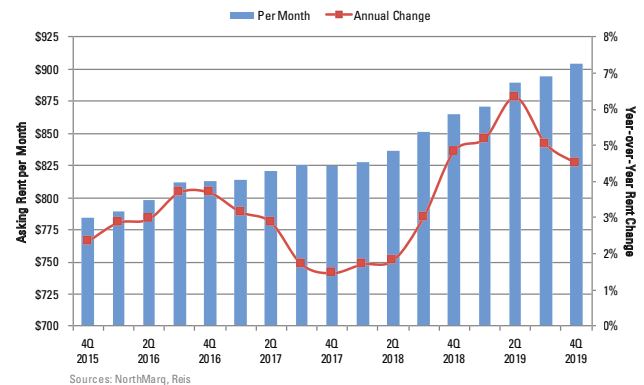
Sources: NorthMarq, Reis

At 4.4 percent, vacancy is down 40 basis points from one year earlier

Rents

- > Rent growth accelerated during the fourth quarter, with asking rents reaching \$904 per month. Average asking rents rose 1.1 percent in the fourth quarter.
- > For the year, asking rents rose 4.5 percent, building on a 4.8 percent gain in 2018. Rent growth has been particularly strong during the past six quarters.
- > Class A asking rents ended 2019 at \$1,054 per month, 3.8 percent higher than one year earlier. Some of the slowing rent growth in Class A units can be attributed to the slowed pace of development of new, more expensive units.
- > **Forecast:** Rent growth in 2020 is forecast to total 4 percent, with rents expected to end the year at \$940 per month.

Rent Trends

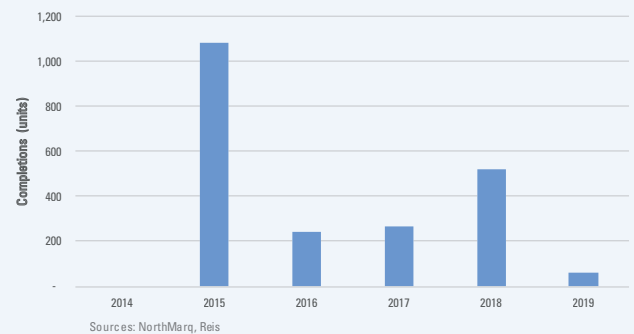


Asking rents rose 4.5 percent in 2019, building on a 4.8 percent gain in 2018

Development and Permitting

- > Apartment construction was light in 2019, with projects totaling fewer than 60 units coming online. In 2018, projects totaling more than 500 units were delivered.
- > A handful of projects totaling nearly 300 units are currently under construction. Deliveries have averaged 275 units per year since 2016, so the current projects in the development pipeline are unlikely to cause significant supply-side pressure.
- > Developers pulled permits for approximately 260 multifamily units in 2019, more than doubling the total from 2018. Multifamily permit issuance during the fourth quarter was the highest total in the area since mid-2016.
- > **Forecast:** Projects totaling approximately 225 units are forecast to be delivered in 2020, a rise from the 2019 total but similar to the market's recent long-term average.

Development Trends

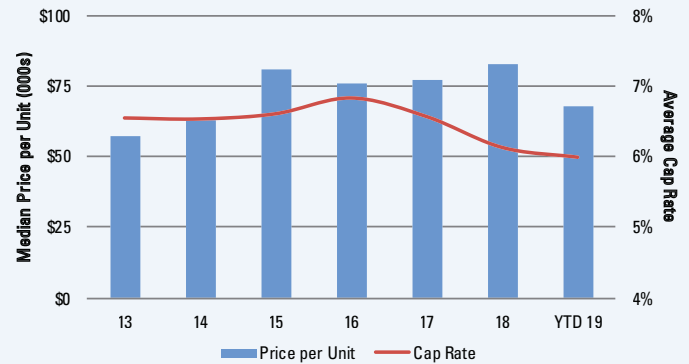


Developers pulled permits for approximately 260 multifamily units in 2019

Multifamily Sales

- > Multifamily sales velocity inched lower in the fourth quarter, and total transaction activity declined more than 40 percent from 2018 to 2019. Investment activity in 2019 was closer to historical levels after a spike in 2018.
- > In transactions where sales prices have been reported, the median price has been approximately \$67,900 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 second half of the year with cap rates around 5.5 percent.

Investment Trends



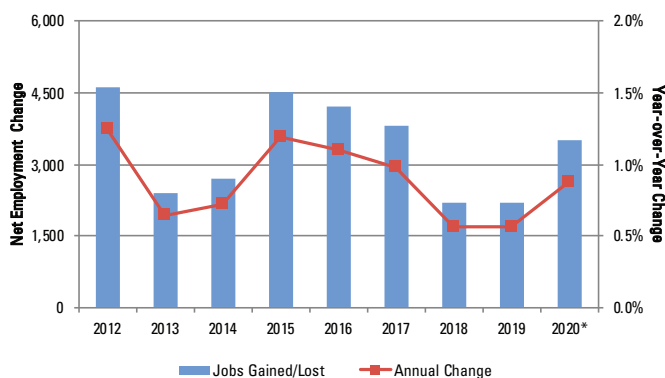
Several transactions closed in the second half of the year with cap rates around 5.5 percent

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 renter demand is expanding at a faster pace than new apartments are being brought online. In 2020, these trends are forecast to continue, with approximately 3,500 net new jobs forecast to be added and only 225 new apartments likely to be delivered. This should support some additional vacancy tightening, fueling another year of rent gains in 2020.

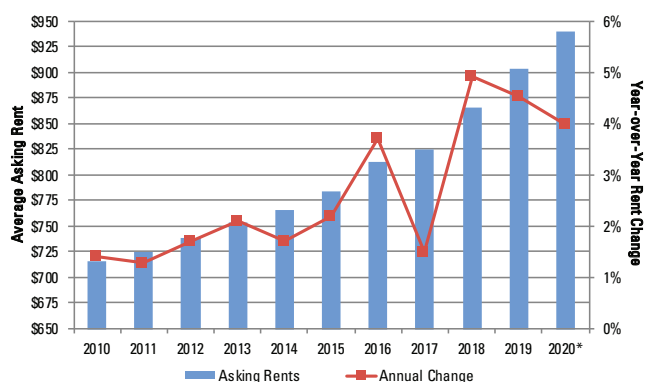
Despite a dip in activity in 2019, the investment climate in Albuquerque has strengthened in recent years as market fundamentals have improved. This heightened investor interest is reflected in the greater number of sales of larger and newer apartment properties. With demand healthy, the pace of activity in 2020 will likely be 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



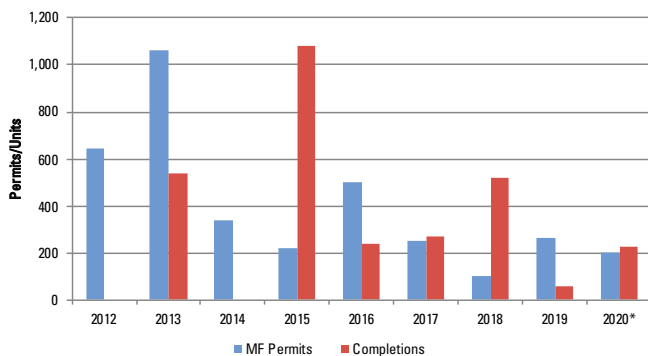
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



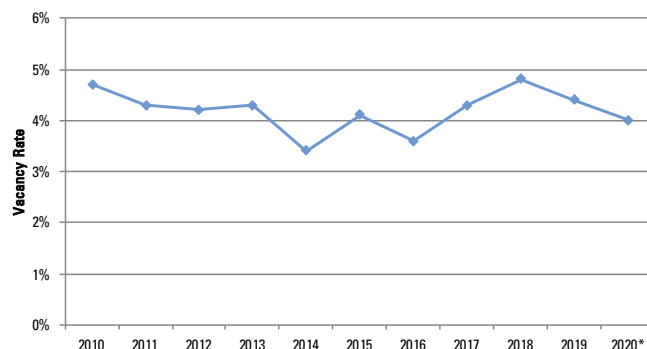
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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 \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 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

Copyright © 2020 NorthMarq Multifamily, LLC.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

