

Albuquerque Multifamily




Vacancy Tightens, Supporting the Local Investment Market

Highlights

- > The Albuquerque multifamily market continues to strengthen, despite job losses recorded in the second quarter. There could be some modest softening in the second half of the year as the pace of deliveries accelerates.
- > Apartment vacancy in Albuquerque improved in each of the first two quarters of 2020. The rate reached 3.5 percent at midyear, 60 basis points lower than one year earlier.
- > With vacancy tightening, rents have continued to trend higher. Average asking rents have increased 3.1 percent year over year, ending the second quarter at \$917 per month.
- > Sales activity in the second quarter ran slightly ahead of the pace recorded during the first quarter. The median sales price has risen, reaching \$121,500 per unit in transactions where pricing information is available. Cap rates have compressed to an average of 5.5 percent.

Albuquerque Multifamily Market Overview

The Albuquerque multifamily market posted strong performance during the first half of 2020, even during a period of economic volatility. Local apartment vacancy tightened considerably during the first two quarters, falling 90 basis points year to date to the lowest figure in more than five years. With vacancy improving, landlords are implementing rent increases, although the second quarter brought just a minor uptick. Construction has been fairly active to this point in 2020, and additional projects are in the development pipeline. Continued absorption of rental units will be key to performance in the second half.

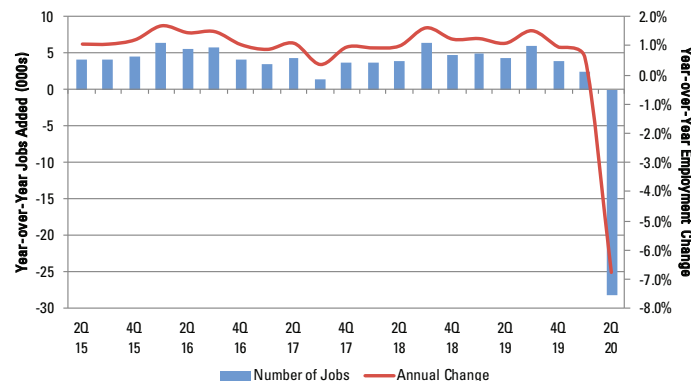
Q2 Snapshot	Albuquerque Market
	Market Fundamentals
	Vacancy 3.5%
	- Year Over Year Change -60 bps
	Asking Rent \$917
	- Year Over Year Change +3.1%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$121,500
	Cap Rates (Avg YTD) 5.5%
	Construction Activity
	Units Under Construction 872
	Units Delivered YTD 402

While there was significant disruption in multifamily investment trends at the national level, conditions in Albuquerque were largely stable during the first half of 2020. Sales of apartment properties in the second quarter outpaced levels from the first quarter, and velocity in the first half of this year is only slightly behind the pace established during the same period in 2019. Prices rose and cap rates have compressed to this point in 2020, reflecting the low interest rate environment and the market's strong property performance.

Employment

- > Albuquerque shed jobs during the second quarter, just like every other major market in the country. Losses in Albuquerque were more modest than in other markets that are more reliant on growth and leisure businesses. Year over year through the second quarter, employment in Albuquerque declined by 6.8 percent with the loss of 27,000 net jobs.
- > The Albuquerque market's significant government presence traditionally stabilizes local employment trends. The government sector accounts for approximately 20 percent of total employment in Albuquerque and has contracted by just 3.1 percent in the past year.
- > With many white-collar workers able to work remotely, the professional and business services sector has recorded only minimal losses. The sector contracted by 3.3 percent year over year through the second quarter, with losses of 2,100 jobs.
- > **Forecast:** Employers in Albuquerque have started adding back workers, but the market is forecast to record net job losses for the year. It will likely take until the second half of 2021 for the market to return to full employment.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

The significant government presence traditionally stabilizes local employment trends

Vacancy

- > Multifamily vacancy in Albuquerque fell 60 basis points during the first quarter and retreated an additional 30 basis points in the second quarter. The rate reached 3.5 percent as of the second quarter, the lowest figure in more than five years.
- > Vacancy is down 60 basis points year over year, and the current rate is 130 basis points lower than the most recent peak recorded at the end of 2018.
- > One driver of the rapid decline in local vacancy has been strong demand for Class A units. Absorption of Class A units has been positive in each of the past nine quarters. Class A vacancy ended the second quarter at 3.7 percent, 120 basis points lower than the figure one year ago.
- > **Forecast:** Vacancy posted very strong performance in the first half of the year, reaching levels that had not been recorded in several years. The rate is forecast to inch higher in the second half, ending the year at approximately 4 percent.

Vacancy Trends



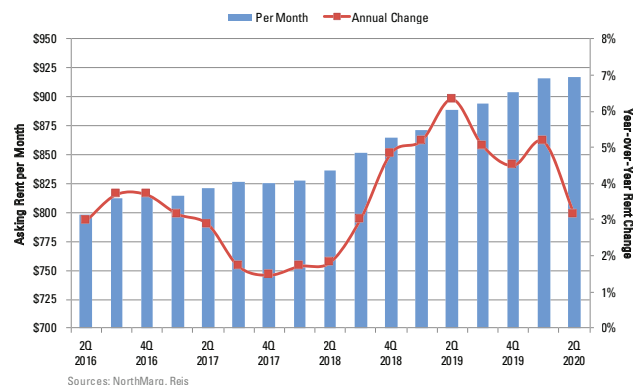
Sources: NorthMarq, Reis

Vacancy is down 60 basis points year over year

Rents

- > With vacancy tightening, rents have been trending higher, albeit at a more modest pace in recent months. Asking rents rose 1.3 percent in the first quarter but inched up just 0.1 percent in the second quarter.
- > Year over year, average asking rents have increased 3.1 percent, ending the second quarter at \$917 per month. Rent growth began to accelerate in 2018, and annual increases have averaged nearly 5 percent.
- > Average Class A asking rents topped \$1,000 per month at the end of 2018 and have continued to trend higher in subsequent quarters. Class A asking rents have increased 3.2 percent year over year, ending the second quarter at \$1,070 per month.
- > **Forecast:** Local apartment rents are forecast to end 2020 slightly higher than at the beginning of the year. Asking rents are expected to post an annual gain of 1.0 percent to 1.5 percent.

Rent Trends

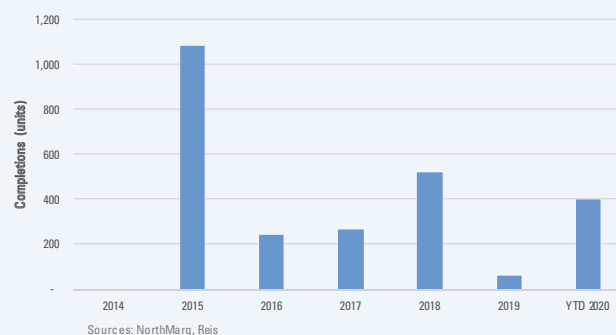


Year over year, asking rents have increased 3.1 percent

Development and Permitting

- > After apartment construction slowed in 2019, the pace of deliveries has regained momentum thus far in 2020. Projects totaling approximately 400 units came online during the first half of the year, with additional deliveries anticipated in the second half.
- > Approximately 875 apartment units are currently under construction, with more than 600 units slated to be brought to the market by the end of 2020.
- > Permitting for multifamily units has slowed thus far in 2020. Year to date, developers have pulled permits for fewer than 50 multifamily units, down approximately 60 percent from the first half of 2019.
- > **Forecast:** While some developments could be delayed because of supply chain interruptions, developers are currently on pace to deliver approximately 1,050 apartment units in 2020. This would mark the most new units to enter the market since 2015.

Development Trends

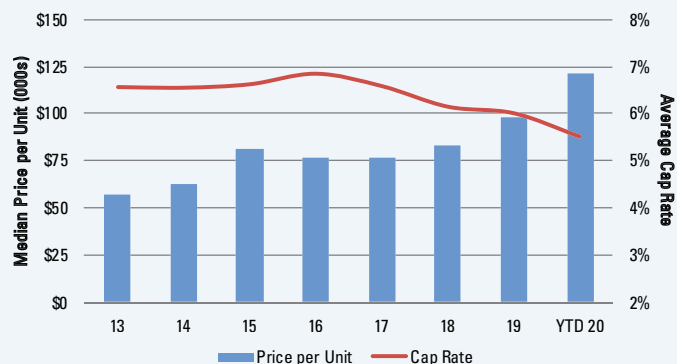


Approximately 875 apartment units are currently under construction

Multifamily Sales

- > While many markets recorded steep declines in sales activity, levels in Albuquerque have remained mostly steady in 2020. Transaction counts in the first half of this year were down just 9 percent from the same period in 2019, and more properties traded in the second quarter than changed hands during the first quarter.
- > In transactions where sales prices have been reported, the median price has been approximately \$121,500 per unit. Pricing continues to have a wide range, with a few projects selling for more than \$150,000 per unit, while some other assets have traded between \$50,000 per unit and \$70,000 per unit.
- > Cap rates are generally averaging approximately 5.5 percent, reflecting the compression recorded in the second half of last year. Some buildings have sold with cap rates of 5 percent or lower, while others have traded with cap rates above 6 percent.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

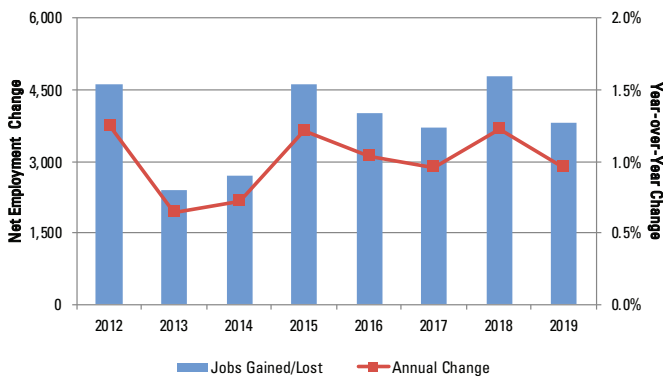
Sales activity levels in Albuquerque have remained mostly steady in 2020

Looking Ahead

The Albuquerque multifamily market has posted standout performance in recent quarters, as the local economy has attracted technology companies from more expensive markets looking to establish a presence in secondary markets. Renter demand has been elevated, moving the vacancy rate lower. Developers are taking steps to meet this demand, and a handful of new construction projects are forecast to come online during the next few quarters. Local vacancy will likely tick up from the cyclical lows recorded during the second quarter, but the rate is expected to remain lower than the recent five-year average.

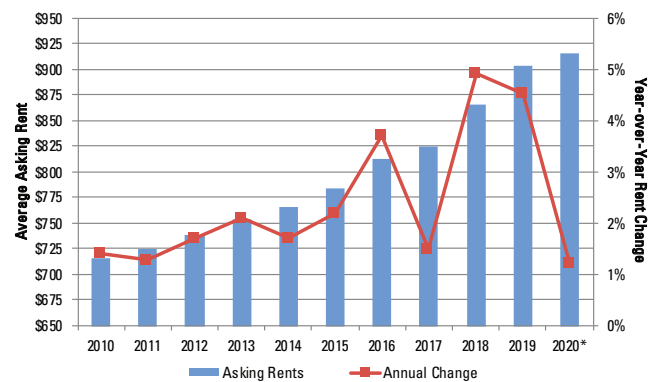
With operating conditions expected to remain healthy in the coming quarters, investment activity in Albuquerque is forecast to remain on its current course. With interest rates declining and market vacancy tightening, average cap rates have reached their lowest point in more than a decade. Cap rates will likely remain near current figures for the remainder of the year. There is a wide disparity for per-unit prices, with Class A and better Class B units trading for \$100,000 per unit or more. Some older Class B and Class C units will likely still be available at per-unit prices that are much closer to historical figures.

Employment Forecast



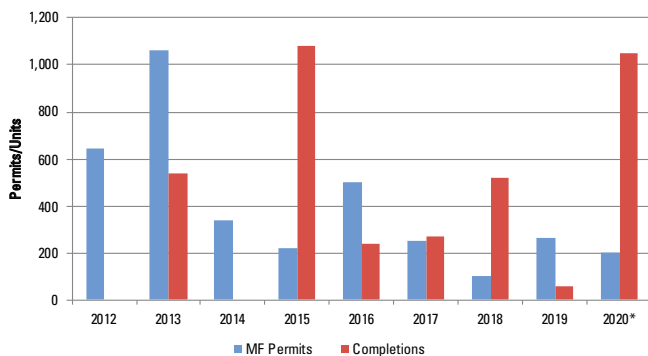
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



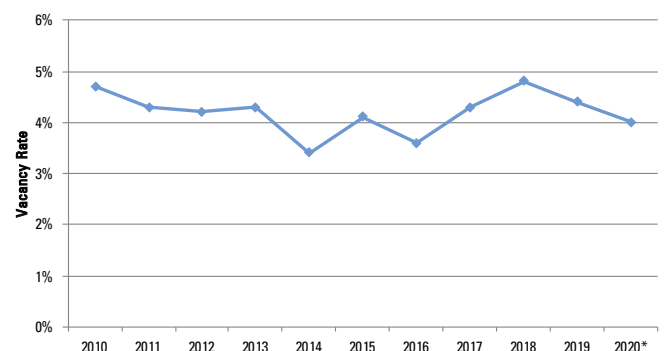
* Year End Forecast
Sources: NorthMarq, Reis

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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