

Albuquerque Multifamily




Investment Activity Picks Up With Low Vacancy and Rents on the Rise

Highlights

- > Strong renter demand and limited supply growth fueled the Albuquerque multifamily market in 2020. Vacancy was flat during the fourth quarter, maintaining the market's five-year low. Rents pushed higher at a fairly steady pace throughout the year.
- > Vacancy fell 110 basis points in 2020, ending the year at 3.3 percent. Absorption was strong, with net move-ins in 2020 nearly doubling the total from 2019.
- > Asking rents ended the fourth quarter at \$937 per month, rising 3.7 percent for the year. Consistently tight conditions are supporting rent increases.
- > The investment market gained momentum during the fourth quarter, with sales activity nearly doubling levels from the third quarter. The median price in 2020 was approximately \$98,100 per unit, while cap rates averaged 5.2 percent.

Albuquerque Multifamily Market Overview

The Albuquerque multifamily market posted strong improvement in 2020, with vacancy tightening considerably and rents pushing higher, despite net job losses. While vacancy was flat from the third quarter to the fourth quarter, the rate fell 110 basis points for the year, one of the sharpest declines recorded in the country in 2020. Renter demand proved to be particularly healthy, with net absorption in 2020 nearly doubling the total from the previous year. Looking forward, absorption and new construction are forecast to post similar totals in the year to come, which should keep vacancy near the year-end 2020 figure.

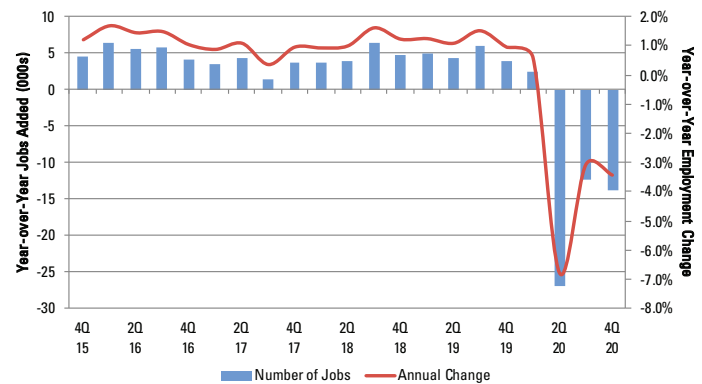
Q4 Snapshot	Albuquerque Market
	Market Fundamentals
	Vacancy 3.3%
	- Year Over Year Change -110 bps
	Asking Rent \$937
	- Year Over Year Change +3.7%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$98,100
	Cap Rates (Avg YTD) 5.2%
	Construction Activity
	Units Under Construction 792
	Units Delivered YTD 456

Sales of multifamily properties gained momentum to close 2020, with several transactions closing in excess of \$20 million. Investors continue to be drawn to the strong operating performance in the Albuquerque area, highlighted by improving occupancy figures at a time when renter demand has cooled in many parts of the country. Cap rates compressed throughout 2020, averaging just 5.2 percent by the end of the year. With interest rates low and property fundamentals strong, cap rates are expected to remain near current ranges.

Employment

- > Employment in Albuquerque contracted by approximately 3.4 percent in 2020, with net job losses totaling 13,700 positions. Employers in the market added back workers at a healthy rate during the third quarter, but the pace of recovery in the labor market stalled at the end of the year, mirroring the national trend.
- > While the private sector was impacted by economic shutdowns, government employment expanded in 2020, offsetting some of the losses recorded in the larger economy. Government employment is the largest sector in Albuquerque, and 5,500 public-sector jobs were added in 2020.
- > The local warehousing industry is scheduled to receive a significant boost in 2021. Amazon is opening a 2.5-million-square-foot distribution facility in the West Mesa area. The facility is forecast to open in 2021 and is expected to have 1,000 employees.
- > **Forecast:** Employers added an average of 3,800 employees per year from 2012 to 2019, and gains are forecast to be stronger in 2021, as the economy regains momentum after contracting in 2020. Total employment should expand by approximately 6,500 workers in 2021, a gain of 1.7 percent.

Employment Overview



Government employment expanded in 2020; 5,500 public-sector jobs were added

Vacancy

- > The local vacancy rate held steady at 3.3 percent in the fourth quarter, matching the figure from the third quarter. This marks the lowest vacancy rate in Albuquerque since early 2015.
- > In 2020, vacancy declined 110 basis points, the largest annual drop since 2010. The local vacancy rate has averaged 4.1 percent during the past decade.
- > One factor driving the market vacancy rate lower has been tightening in the Class A segment. Net absorption in Class A units has averaged 350 units per year since 2015, and the vacancy rate in the top tier has declined to 3.6 percent. Class A vacancy fell 80 basis points in 2020.
- > **Forecast:** In 2021, new construction is forecast to slightly outpace net absorption, and the vacancy rate is expected to rise 10 basis points, ending the year at 3.4 percent.

Vacancy Trends

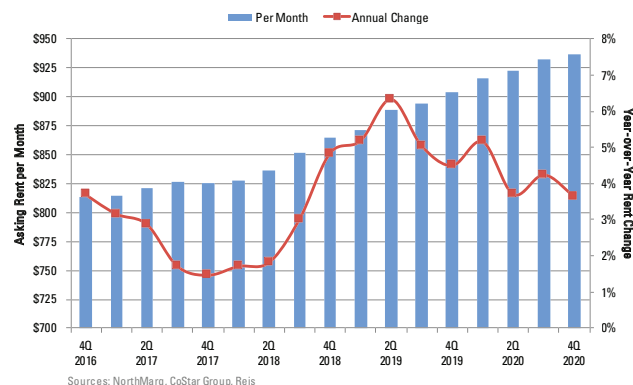


In 2020, vacancy declined 110 basis points, the largest annual drop since 2010

Rents

- > Rents trended higher throughout 2020, as operators leveraged tightening vacancy conditions to implement rent increases. Asking rents ended the fourth quarter at \$937 per month.
- > Rent growth in Albuquerque was stronger than in most major markets in 2020. Asking rents advanced 3.7 percent for the year, following an increase of 4.5 percent in 2019.
- > Rents in Class A buildings continued to push higher in 2020. Asking rents in Class A apartments averaged \$1,080 per month at the end of 2020, up 2.5 percent year over year.
- > **Forecast:** Rents are forecast to rise approximately 3.2 percent in 2021, with asking rents scheduled to reach \$967 per month by year end.

Rent Trends

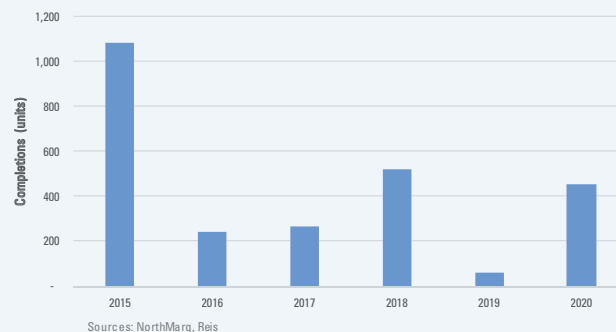


Asking rents ended the fourth quarter at \$937 per month

Development and Permitting

- > Developers delivered approximately 460 new units in 2020, up from fewer than 100 units in 2019. Apartment construction typically averages approximately 400 units per year.
- > Projects totaling nearly 800 units are under construction, compared to a total of approximately 500 units one year ago.
- > Permitting for multifamily units was minimal in 2020, totaling fewer than 100 units. The drop in multifamily permitting should result in a thinning construction pipeline in the coming quarters.
- > **Forecast:** New construction in 2021 should closely track levels from 2020. Projects totaling approximately 450 units are slated to come online in the year ahead.

Development Trends

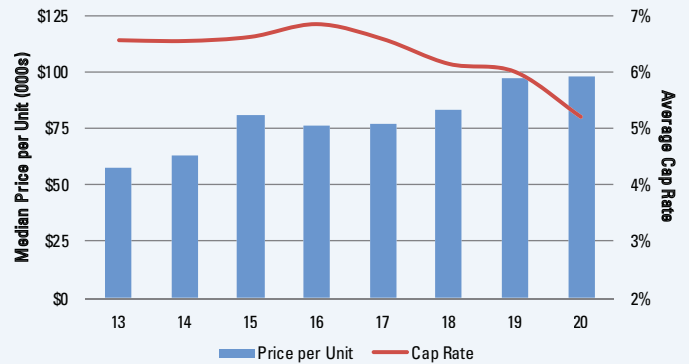


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Multifamily Sales

- > Sales activity gained momentum at the end of the year, and more properties sold during the fourth quarter than during any other period in 2020. Transaction volume in 2020 was down approximately 12 percent when compared to activity levels in 2019.
- > In transactions where sales prices were reported in 2020, the median price reached \$98,100 per unit. There was a wide pricing range in 2020; a few projects traded at prices of \$190,000 per unit or higher, while there were also properties changing hands with prices near \$60,000 per unit.
- > For the full year, cap rates averaged approximately 5.2 percent. With the market posting healthy operating performance throughout the year, cap rates compressed in 2020.

Investment Trends



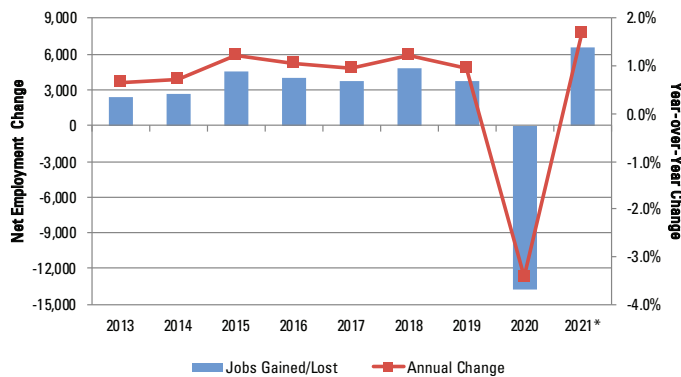
More properties sold during the fourth quarter than during any other period in 2020

Looking Ahead

The Albuquerque multifamily market posted very strong performance in 2020, and with supply and demand likely to be closely aligned in the year ahead, additional gains are anticipated. The local vacancy rate ended 2020 at its lowest figure in more than five years, and conditions are forecast to remain tight in 2021. With vacancy rates at or near cyclical lows, landlords will have additional pricing power and rents should continue to push higher. The local labor market is expected to rebound in 2021. In addition to continued reopening across the economy, several prominent companies have announced expansion plans, which should boost employment totals.

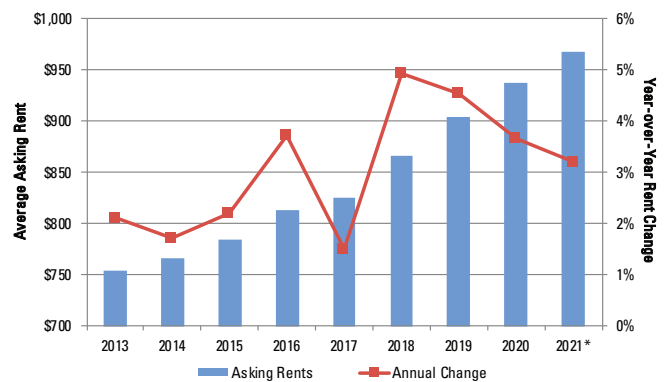
The same forces that fueled sales velocity at the end of 2020 should sustain investor demand in the year ahead. Vacancy rates are low and expected to stay that way, with new construction likely to be nearly identical to forecast absorption levels. Although 2020 was a year of disruption, the year ahead is likely to be much more stable. The local economy should strengthen as several companies announced plans to expand their local workforces in the coming years. Assuming the local labor market bounces back as expected, investors are expected remain active in 2021.

Employment Forecast



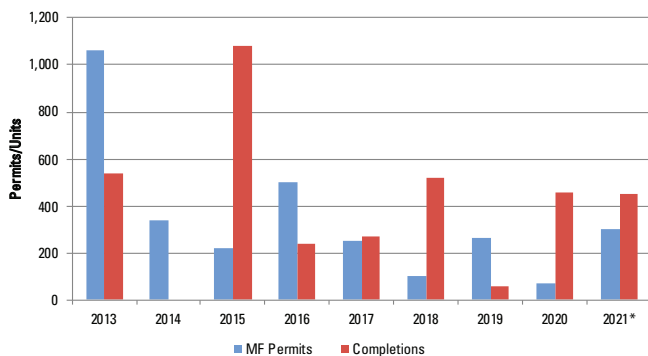
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



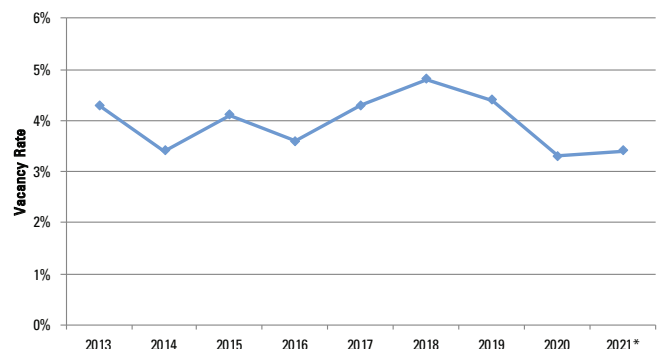
* Year End Forecast
Sources: NorthMarq, Reis

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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