

# Albuquerque Multifamily




## With Vacancy Low, Investors Ramp Up Activity

### Highlights

- > The Albuquerque multifamily market continued to record steady performance during the first quarter. The local vacancy rate has remained low, and rents are trending higher at a rapid pace. Investors are responding to the healthy property performance by accelerating the pace of acquisitions.
- > The vacancy rate for area apartment properties held steady at 3.3 percent for the third consecutive quarter. The rate is down 50 basis points year over year and is forecast to record a modest decline in 2021.
- > Rents continue to push higher, supported by consistently low vacancy rates. Asking rents reached \$958 per month in the first quarter, up 4.6 percent from one year ago.
- > Sales activity accelerated at the beginning of 2021, with transactions largely concentrated in older Class C properties. The median price in sales where pricing was available was approximately \$80,400 per unit, while cap rates averaged 5.2 percent. Cap rates have started to compress in the second quarter.

### Albuquerque Multifamily Market Overview

Multifamily vacancy has been consistently low in the Albuquerque multifamily market, a trend that reflects the steady pace of renter demand and the limited supply of new units. Conditions are likely to improve in the coming quarters, as the development pipeline includes just a few projects, and a recovering employment market should spark additional demand growth. Rents have been on the rise, and strong gains were recorded in the first few months of this year as landlords leveraged tight conditions to implement increases.

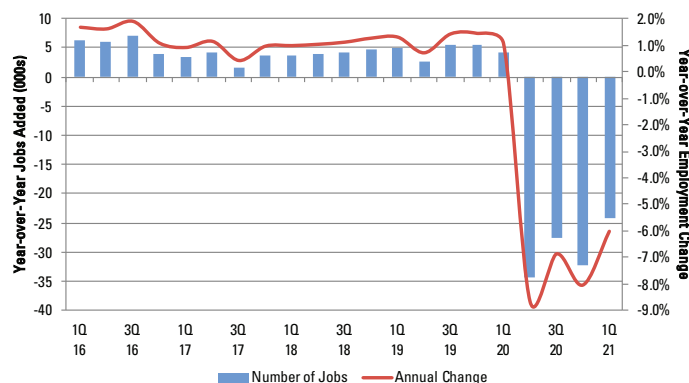
Q1 Snapshot	Albuquerque Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>3.3%</b>
	- Year Over Year Change ..... <b>-50 bps</b>
	Asking Rent ..... <b>\$958</b>
	- Year Over Year Change ..... <b>+4.6%</b>
	<b>Transaction Activity</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$80,440</b>
	Cap Rates (Avg YTD) ..... <b>5.2%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>792</b>
	Units Delivered YTD ..... <b>0</b>

Investor demand for apartment properties in Albuquerque is gaining momentum, spurred on by healthy operational performance. Transaction activity to this point in 2021 is well ahead of the pace established last year, and velocity is expected to remain healthy as long as there are properties available for acquisition. During the first quarter, transaction activity was dominated by sales of older, Class C assets, but a more diverse mix of assets is being marketed for sale in the second quarter. As higher-end properties transact, cap rates are likely to average around 4.5 percent.

## Employment

- > Employers added 8,000 jobs during the first quarter in Albuquerque, building on the gain of 6,000 jobs in the second half of last year. The local labor market is forecast to continue to add back workers throughout 2021.
- > Year over year through the first quarter, total employment in Albuquerque is down 6 percent, with the net contraction of 24,200 jobs.
- > Intel announced plans to invest \$3.5 billion in the company's Rio Rancho facility. The transformation of the existing facility to a new manufacturing hub for its new stacking technology is expected to add 700 jobs over the next three years.
- > **Forecast:** Employers are forecast to add back workers throughout 2021. Payrolls are expected to grow by nearly 5 percent this year, with the addition of approximately 18,000 jobs.

## Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*Intel announced plans to invest \$3.5 billion in the company's Rio Rancho facility, adding 700 jobs*

## Vacancy

- > Vacancy in Albuquerque has been very stable in recent periods, holding steady at 3.3 percent in each of the past three quarters. The market has maintained the current rate, which is the lowest area vacancy rate since 2015.
- > Year over year through the first quarter, apartment vacancy has declined 50 basis points. Vacancy has averaged 4 percent in Albuquerque since the beginning of 2016.
- > The Class A vacancy rate has tightened as demand for properties at the top tier of the market has strengthened. Vacancy in Class A units ended the first quarter at 3.7 percent, 50 basis points lower than the figure one year ago.
- > **Forecast:** The factors driving the consistently low vacancy conditions in Albuquerque are expected to remain in place in 2021, and the rate is forecast to dip 20 basis points to 3.1 percent by the end of the year.

## Vacancy Trends



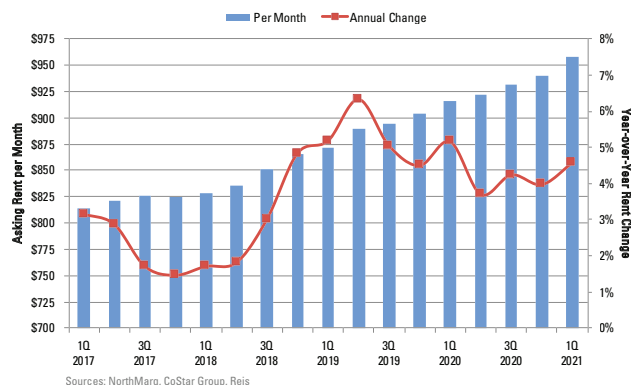
Sources: NorthMarq, Reis

*Year over year through the first quarter, apartment vacancy has declined 50 basis points*

## Rents

- > Rents in Albuquerque continue to push higher in response to a vacancy rate that is one of the lowest in the Southwest part of the country. Asking rents ended the first quarter at \$958 per month, 4.6 percent higher than one year ago.
- > The minimal supply of new construction in recent years has kept Class A rents in a fairly tight range. Asking rents in the area's Class A properties have inched up 1.4 percent year over year, ending the first quarter at \$1,085 per month.
- > Rents in the lower tiers of the market have been trending higher. The combined asking rents for Class B and Class C properties reached \$800 per month in the first quarter. As recently as the end of 2018, rents in these properties averaged \$750 per month.
- > **Forecast:** Rent growth in 2021 is forecast to total approximately 4.6 percent. Asking rents are forecast to end the year averaging around \$985 per month.

## Rent Trends

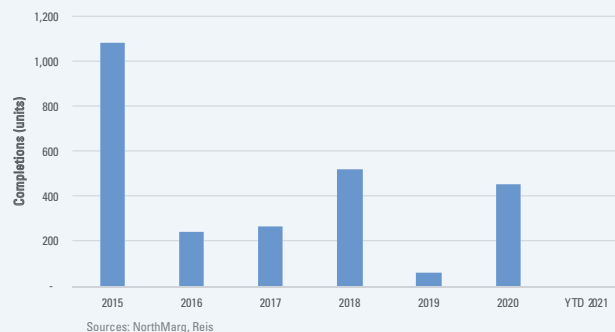


*Asking rents ended the first quarter at \$958 per month, 4.6 percent higher than one year ago*

## Development and Permitting

- > Developers delivered approximately 460 units in 2020, but the pace slowed at the start of 2021, with no new significant projects coming online during the first quarter.
- > Apartment construction is expected to gain momentum in the coming quarters. Currently, projects totaling nearly 800 units are under construction with additional developments scheduled to break ground later in the year.
- > After fewer than 100 multifamily permits were issued in 2020, activity spiked at the start of this year. During the first quarter, developers pulled permits for more than 400 multifamily units, the strongest period of permit issuance since late 2013.
- > **Forecast:** Apartment deliveries in 2021 should closely track levels from last year. Developers are scheduled to deliver approximately 450 units this year.

## Development Trends

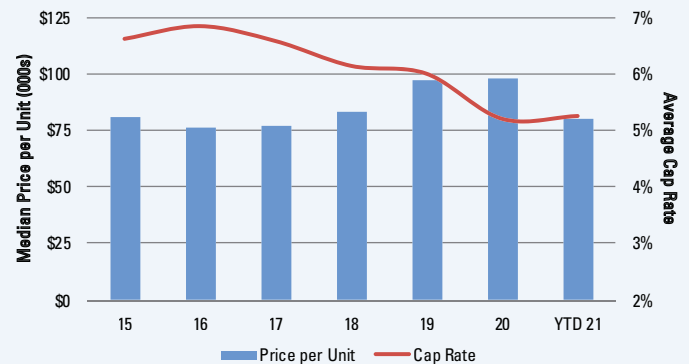


*Projects totaling nearly 800 units are under construction*

## Multifamily Sales

- > Sales activity accelerated to start 2021. The number of properties that sold in the first quarter ticked higher from levels recorded at the end of last year, and nearly tripled the volume that was recorded at the beginning of 2020. With vacancy in Albuquerque consistently low, investors are being drawn to the stability of the market.
- > In transactions where sales prices were reported during the first quarter, the median price was approximately \$80,400 per unit. Many of the transactions that closed in the first quarter involved older buildings that were sold with buyers preparing to implement value-add strategies.
- > Cap rates during the first quarter averaged approximately 5.2 percent, closely tracking levels recorded in the second half of 2020. Early in the second quarter, cap rates began to compress, with properties selling with cap rates around 4.5 percent.

## Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

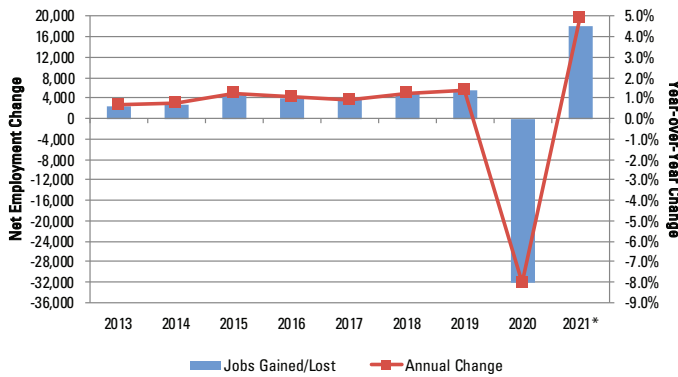
*During the first quarter, the median price was approximately \$80,400 per unit*

## Looking Ahead

The Albuquerque multifamily market, which was already posting strong operational performance, is forecast to improve in the near future. Several companies have expansion plans under way, but Intel’s move to add 700 workers and invest more than \$3 billion in the chipmaker’s Rio Rancho facility will be one of the largest economic drivers in the area. While the factors fueling demand are in place, new additions to supply are forecast to remain modest until at least the end of 2022, which should keep the local vacancy rate tight enough to support consistent rent growth. Longer term, developers will speed up the pace of new construction to meet renter demand. Multifamily permitting is on pace to reach its highest level in nearly a decade.

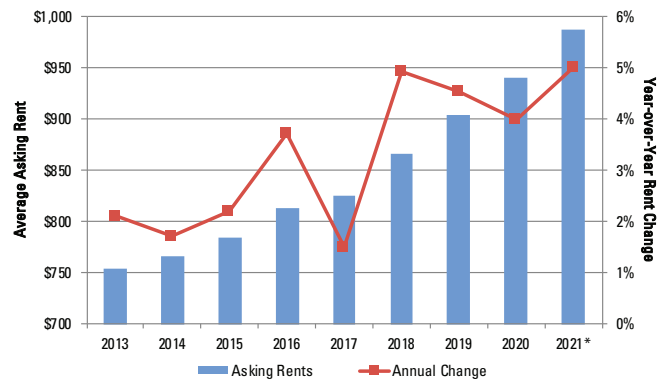
The investment market for Albuquerque apartment properties is likely to become increasingly competitive through the remainder of 2021. Cap rates have been gradually compressing in recent years, but the market’s improving growth prospects are fueling further declines. After averaging about 5.25 percent since the middle of 2020, cap rates are forecast to compress to 4.5 percent or lower in the second half of this year, as investors anticipate continued strengthening in local property fundamentals. With demand elevated, transaction activity could accelerate as more existing owners make properties available for acquisition. A shortage of available properties to exchange into after a sale may be one factor that restricts transaction activity.

### Employment Forecast



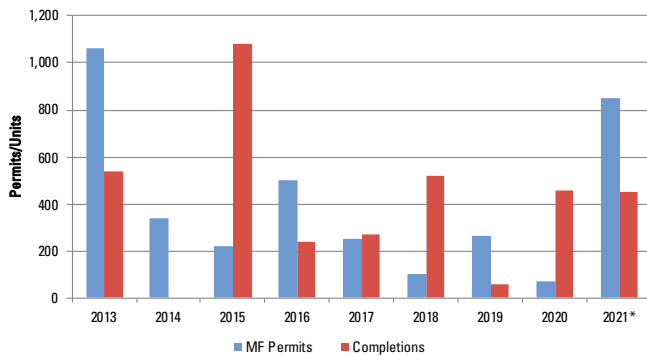
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



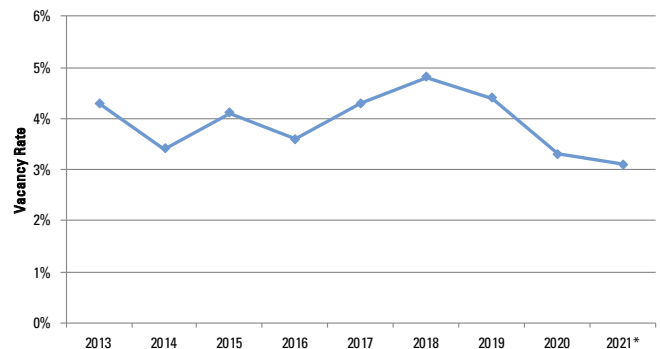
\* Year End Forecast  
Sources: NorthMarq, Reis

### 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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