

# Albuquerque Multifamily

## Rents Rising, Fueling Transaction Activity

### Highlights

- > The Albuquerque apartment market recorded healthy performance during the second quarter, highlighted by an accelerating pace of rent growth.
- > Asking rents reached \$975 per month in the second quarter, 5.7 percent higher than one year ago. Rents are forecast to top \$1,000 per month by the end of this year.
- > Vacancy inched higher during the second quarter, the first quarterly rise since the end of 2019. The rate was 3.6 percent at midyear, up 10 basis points year over year.
- > The local investment market is strengthening. The pace of transaction activity in the first half of this year nearly matched the total sales for all of 2020. On average, cap rates have largely held steady at about 5.2 percent, even as the median price has ticked lower in response to an increase in sales of older assets. Some properties have traded with cap rates below 5 percent, and a handful of transactions have closed with cap rates below 4 percent.

### Q2 Snapshot

### Albuquerque Market



#### Market Fundamentals

Vacancy .....	<b>3.6%</b>
- Year Over Year Change .....	<b>+10 bps</b>
Asking Rent .....	<b>\$975</b>
- Year Over Year Change .....	<b>+5.7%</b>



#### Transaction Activity\*

Median Sales Price Per Unit (YTD) .....	<b>\$81,800</b>
Cap Rates (Avg YTD) .....	<b>5.2%</b>



#### Construction Activity

Units Under Construction .....	<b>1,379</b>
Units Delivered YTD .....	<b>227</b>

\* In transactions where pricing is available

### Albuquerque Multifamily Market Overview

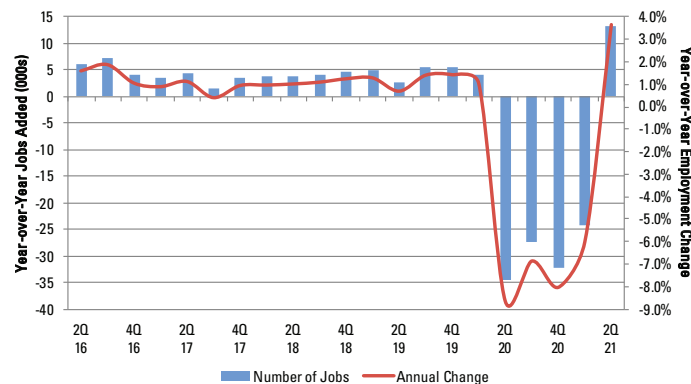
The Albuquerque multifamily market continued to post healthy performance during the second quarter, despite a modest vacancy uptick after the rate had held steady at cyclical lows since the middle of last year. Rents continued to push higher in the second quarter, and average rents are forecast to top \$1,000 per month by the end of this year. Area rent growth has topped 4 percent in each of the past three years and advances this year will nearly double that figure. To this point in the cycle, new apartment development has been modest, but the pace is likely to accelerate in the next 12 to 24 months, with more units under construction than in recent periods and a surge in multifamily permitting activity in the first half of this year.

The local investment market has been active in 2021, with sales volume in the first half of this year nearly matching the total transaction count for all of last year. Investors are responding to the improving local economy, healthy rent growth, and tight operating conditions to acquire a broad mix of apartment properties. Several 1970s-era properties changed hands during the first half of this year, boosting the overall volume of deals but also causing a modest dip in the median sales price when compared to recent years. The median price for all transactions to this point in 2021 is approximately \$81,800 per unit, while the older, Class B and Class C properties have generally sold between \$60,000 per unit and \$65,000 per unit.

## Employment

- > The Albuquerque labor market continues to make a steady recovery. Year over year through the second quarter, employers have added back more than 13,000 jobs, an increase of 3.6 percent.
- > One of the region's leading employment sectors has accounted for more than one-third of the local job gains. In the past 12 months, the education and health services sector has added 4,900 jobs, an expansion of more than 8 percent.
- > BlueHalo, a national security and technology company, recently announced that the company is expanding operations in Albuquerque. The expansion will add 64 new jobs to the existing 260 employees in the region. The company is slated to move into a new facility at the Max Q development near Kirtland Air Force Base.
- > **Forecast:** Employment growth in Albuquerque is forecast to continue throughout the remainder of this year and well into 2022. For the full year, area employers are forecast to add approximately 15,500 jobs in 2021, a 4.2 percent expansion.

## Employment Overview



*Year over year, employers have added back more than 13,000 jobs*

## Vacancy

- > After dipping to a six-year low, vacancy in Albuquerque ticked higher during the second quarter. The rate rose 30 basis points in the second quarter, reaching 3.6 percent. This marked the first quarterly vacancy rise since the end of 2019.
- > Year over year through the second quarter, local vacancy has inched up just 10 basis points. The rate averaged 4.3 percent from 2017 through 2019 but has remained in the low- to mid-3 percent range since mid-2020.
- > Vacancy has generally been steady throughout Albuquerque for the past several quarters. The combined vacancy rate in Class B and Class C units ended the second quarter at just 2.8 percent. In the Class A segment of the market, vacancy was 4.5 percent, 60 basis points higher than the rate one year earlier.
- > **Forecast:** Local vacancy is expected to decline during the second half of this year as renter demand accelerates. The vacancy rate is forecast to dip 20 basis points from the current level, ending the year at 3.4 percent.

## Vacancy Trends

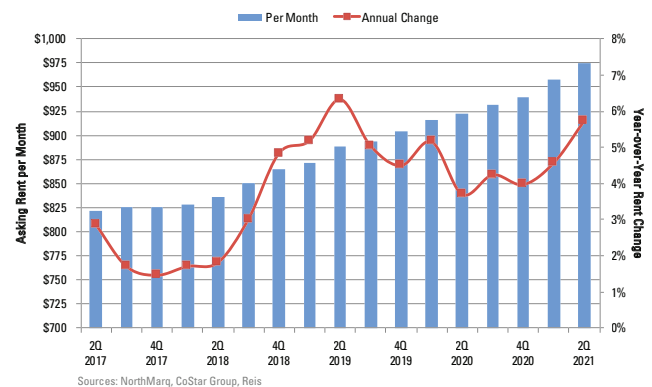


*Year over year through the second quarter, local vacancy has inched up just 10 basis points*

## Rents

- > Rents in Albuquerque recorded positive growth in the first half of 2021. After a strong first quarter, asking rents continued to rise in the second quarter, advancing 1.8 percent to \$975 per month.
- > The Albuquerque multifamily market has recorded healthy rent gains during the past year. In the past 12 months, the average asking rent in the region expanded by 5.7 percent.
- > Rents in Albuquerque's Northeast submarket have grown 3 percent in the first half of 2021. Asking rents in the region averaged \$1,071 per month at the end of the second quarter.
- > **Forecast:** The pace of rent increases should continue as area vacancy remains low and the local economy returns to full strength. Asking rents are forecast to grow 6.8 percent in 2021, ending the year at \$1,004 per month.

## Rent Trends

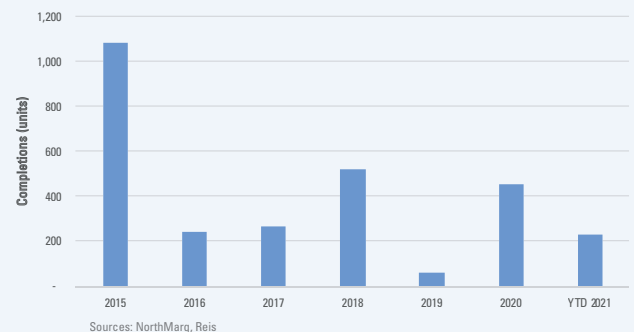


*In the past 12 months, the average asking rent in the region expanded by 5.7 percent*

## Development and Permitting

- > Deliveries gained momentum in the second quarter after a slow start to 2021. More than 225 units came online during the second quarter, after no significant projects were delivered at the start of the year.
- > Developers are responding to the consistently tight vacancy conditions by bringing more projects into the construction pipeline. Projects totaling nearly 1,400 units were under construction as of the end of the second quarter.
- > Permitting surged during the first half of 2021. Developers pulled permits for more than 600 multifamily units during the first two quarters, the strongest start to a year since 2013.
- > **Forecast:** Developers in Albuquerque are forecast to complete approximately 400 units in 2021, down nearly 15 percent from 2020 levels.

## Development Trends

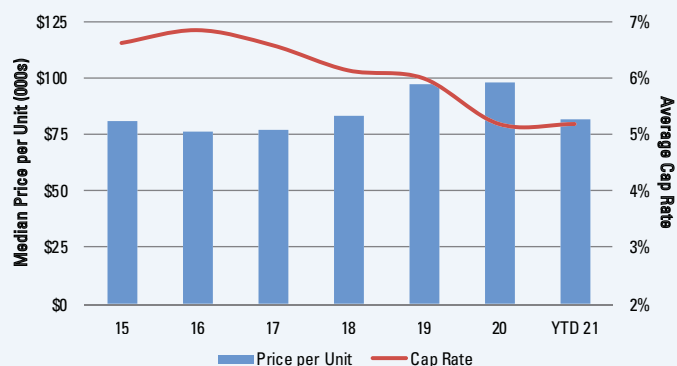


*Developers pulled permits for more than 600 multifamily units during the first two quarters*

## Multifamily Sales

- > Multifamily transaction velocity has been on an upswing throughout the first half of 2021. Sales volume in Albuquerque through the first two quarters of this year had doubled the total activity from the same period in 2020.
- > While the number of properties changing hands has been on a rapid increase, prices have not trended in the same direction. The median sale price in transactions that have closed to this point in 2021 is approximately \$81,800 per unit. In the past two years, the median price has remained around \$95,000 per unit.
- > Cap rates have remained in a fairly tight range even as per-unit pricing has fluctuated. Cap rates averaged 5.2 percent in the first half of the year, unchanged from the 2020 average.
- > While the average cap rate has closely tracked 2020 levels, there has been some compression at the low end of the range. Several transactions have occurred with cap rates below 5 percent, and a few properties have sold with cap rates below 4 percent.

## Investment Trends



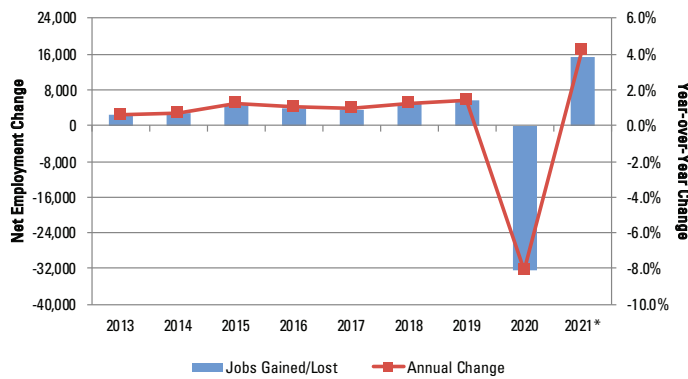
*Cap rates averaged 5.2 percent in the first half of the year*

## Looking Ahead

The Albuquerque multifamily market is forecast to remain on a steady track through the remainder of this year and into 2022. Despite a modest uptick during the second quarter, the local vacancy rate has remained in a very tight range since the beginning of last year, and some modest tightening is forecast for the second half. The economy is growing, with expansions being recorded in some higher-wage sectors. The strengthening employment market is supporting renter demand and fueling rent growth. Annual rent growth in 2021 is on pace to be the strongest year in record, and with occupancy likely to remain elevated, additional gains are forecast for 2022.

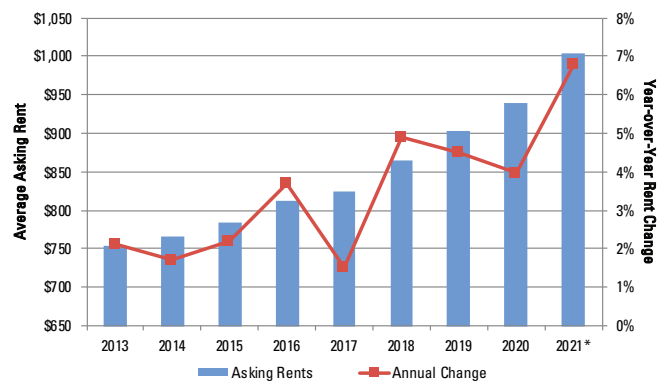
Investors are expected to continue to seek out multifamily acquisition opportunities in Albuquerque in the coming quarters. The market's strong operational performance is enough to bring investment capital into the market, and the region's recent gains in high-tech and advanced manufacturing employment support a brightening economic outlook. The primary obstacle to sales velocity will likely be a modest number of properties available for acquisition. Cap rates have remained fairly steady in Albuquerque to this point in 2021 but could compress somewhat as competition for listed properties intensifies and lending rates remain low.

### Employment Forecast



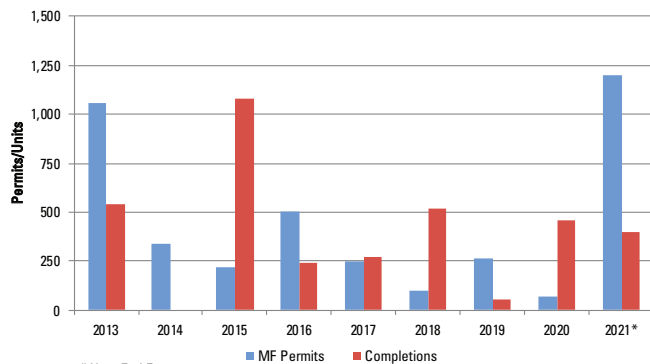
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



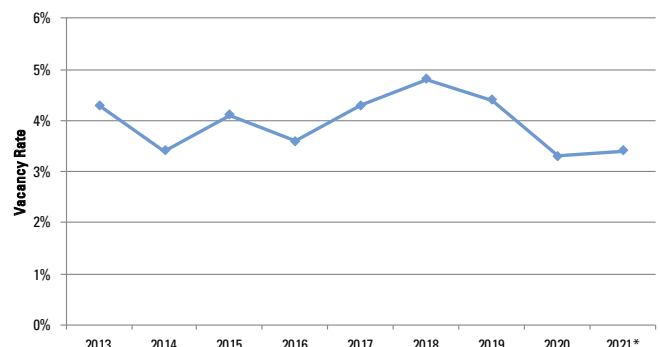
\* Year End Forecast  
Sources: NorthMarq, Reis

### 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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