

Market Insights

Albuquerque Multifamily 3Q 2021



Construction Activity



1,928

Units under construction

227

Units delivered (YTD)

Market Fundamentals



2.8%

Vacancy

-50bps

Year over year change

\$1,082

Asking Rent

+16.1%

Year over year change

Transaction Activity



\$131,250

Median sales price per unit (YTD)

4.5%

Cap rates (YTD)

Market Strength Highlighted by Cap Rate Compression

Highlights

- The Albuquerque multifamily market posted rapid improvement during the third quarter. Vacancy fell significantly, while rents spiked. Per-unit prices surged after inching lower in the first half of the year.
- Vacancies tightened in Albuquerque during the third quarter, reaching levels that have not been recorded in more than 20 years. The rate fell 80 basis points to 2.8 percent in the third quarter; year over year, vacancy is down 50 basis points.
- Asking rents surged to \$1,082 per month in the third quarter; current rental rates are up 16.1 percent from one year ago.
- Investment activity in Albuquerque has been healthy for the past several periods. Prices rose and cap rates compressed, particularly during the third quarter. The median price is up more than 30 percent in 2021 at \$131,250 per unit, while cap rates have dipped to an average of 4.5 percent.

Albuquerque Multifamily Market Overview

The Albuquerque multifamily market recorded one of its strongest periods on record during the third quarter. Vacancies dropped to an all-time low, while rents advanced to a new peak. The lack of inventory being delivered to the expanding local economy has fueled renter demand, as developers are rushing to place new projects into the development pipeline. Elevated demand has allowed owners to push rents to new heights at an unprecedented growth rate. Deliveries have decreased from 2020, however, the supply should begin to catch up to demand over the next several quarters as construction activity increases.

The local investment market remained healthy during the third quarter, with transaction activity matching levels from the previous quarter and prices increasing. The number of properties changing hands to this point in 2021 has surpassed total sales volume from the entirety of 2020 by 50 percent. The increased investor activity is also leading to rising prices; the median price in transactions that have closed this year is up more than 30 percent from pricing levels recorded in 2019 and 2020. Cap rates compressed, averaging 4.5 percent year to date. Transactions have been spread out across the majority of submarkets, reflecting wide investor demand throughout the greater Albuquerque region.

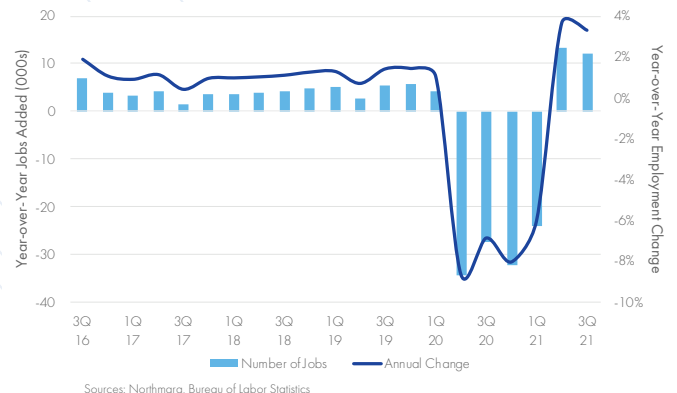
Employment

- Year over year, the Albuquerque employment market has expanded by 3.3 percent with the addition of more than 12,000 jobs. With the current pace of job growth, the labor force should return to its pre-pandemic peak by early 2022.
- The construction sector has been rebounding in recent quarters as economic growth has regained momentum. Year over year, the sector has added more than 3,000 jobs, an increase of approximately 15 percent.
- Adacen, a data center operation company, recently announced that it will move its headquarters to Albuquerque to expand development and testing of new technologies designed to make the data center industry more eco-efficient. Adacen plans to create an additional 100 high-wage jobs in the region.
- **Forecast:** The local employment market is on pace to expand by approximately 5 percent this year with the addition of 18,500 jobs. Gains are expected to occur across a wide range of industries.



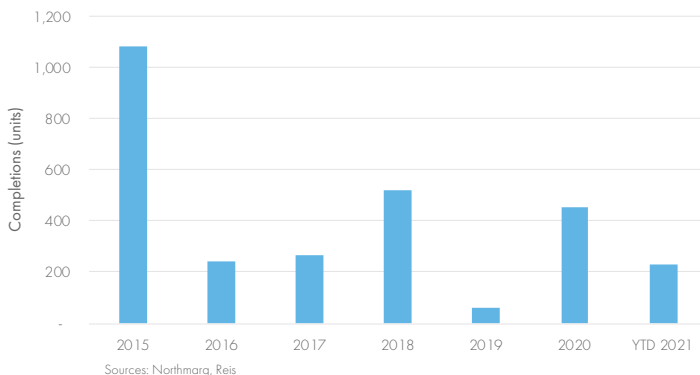
Year over year, employers have added back more than 12,000 jobs.

Employment Overview



Projects totaling more than 1,900 units are under construction.

Development Trends



Development and Permitting

- The pace of new development has been modest thus far in 2021. Approximately 225 units have been delivered year to date, with no significant projects coming online in the third quarter. Last year, new developments totaling more than 450 units were delivered.
- Deliveries will accelerate in the near future as projects totaling more than 1,900 units are under construction, an increase of nearly 45 percent from one year ago.
- Permitting has been extremely active this year as developers scramble to bring new units to the market to satisfy accelerating renter demand. Permits for nearly 1,100 multifamily units have been pulled through the third quarter. Multifamily permitting has traditionally averaged about 350 units per year.
- **Forecast:** Developers in Albuquerque are forecast to complete approximately 200 additional units before the end of the year, bringing a total of 425 units online in 2021. Total deliveries for this year will closely track levels from 2020.

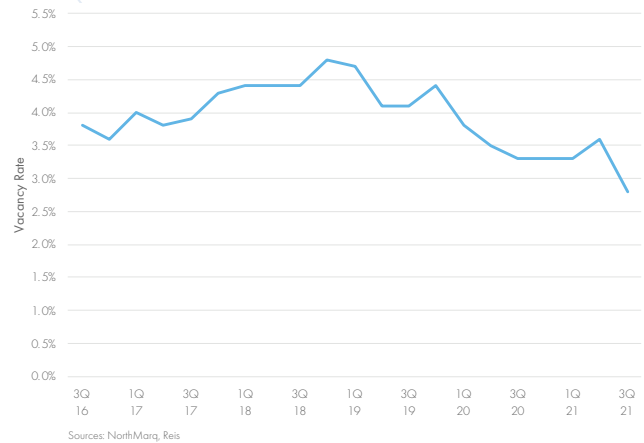
Vacancy

- After a slight vacancy rise during the second quarter, conditions tightened in the Albuquerque multifamily market in the third quarter. The rate dropped 80 basis points to 2.8 percent. This is the lowest the vacancy rate has been in more than 20 years.
- The prevailing trend for the past several years has been one of tightening vacancy. Year over year through the third quarter, the rate has dropped by 50 basis points. Area vacancy peaked in late 2018 and early 2019 and has been declining in subsequent quarters.
- While nearly every submarket is posting vacancy improvements, some of the strongest performance is being recorded in the Northwest submarket where vacancy has compressed by 140 basis points in the past 12 months. The neighboring Northeast submarket continued to record the lowest vacancy rate in the market, with a rate of just 1.8 percent.
- **Forecast:** Local vacancy is expected to decline through the end of the year as absorption and deliveries of new units should accelerate in the fourth quarter. Vacancy in Albuquerque is forecast to drop to 2.7 percent, 60 basis points lower than one year earlier.



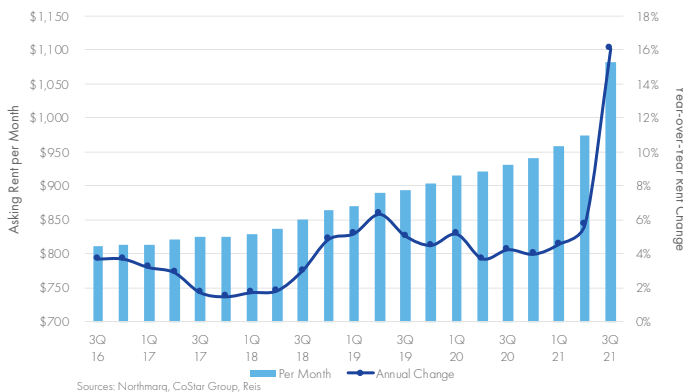
Year over year, the rate has dropped by 50 basis points.

Vacancy Trends



Rents rose more than \$100 per month during the third quarter.

Rent Trends



Rents

- Asking rents in Albuquerque recorded a significant spike during the third quarter, rising 11 percent in just the past three months to \$1,082 per month. Rents rose more than \$100 per month during the third quarter.
- Local asking rents are up 16.1 percent from the same period in 2020, the largest year-over-year growth on record. With vacancy conditions extremely low, rents in the Albuquerque market are forecast to continue to trend higher, albeit at a more modest pace than was recorded in recent quarters.
- Rental growth has been most pronounced in Albuquerque's Class A units. Asking rents among Class A units advanced by nearly 21 percent in the past 12 months, rising to \$1,284 per month.
- **Forecast:** After several years of rent growth ranging from 3 percent to 5 percent, the pace of rent growth will reach all-time highs in 2021. Apartment rents are forecast to end the year up more than 18 percent, reaching about \$1,110 per month.

Multifamily Sales

- The pace of multifamily investment sales has been fairly consistent through each of the first three quarters of this year. During the third quarter, sales velocity closely tracked levels from the preceding three months; to this point in 2021, sales volume has nearly doubled the total activity from the same period in 2020.
- In transactions where pricing information is available, the median price to this point in 2021 is approximately \$131,250 per unit, up more than 30 percent from the median price in the past two years.
- Cap rates have ticked down in 2021, and further declines are likely as investors track the market's strong performance. Cap rates have averaged 4.5 percent this year, and most transactions that closed during the third quarter ranged between 4 percent and 4.5 percent.



The median price in 2021 is approximately \$131,250 per unit.

Investment Trends

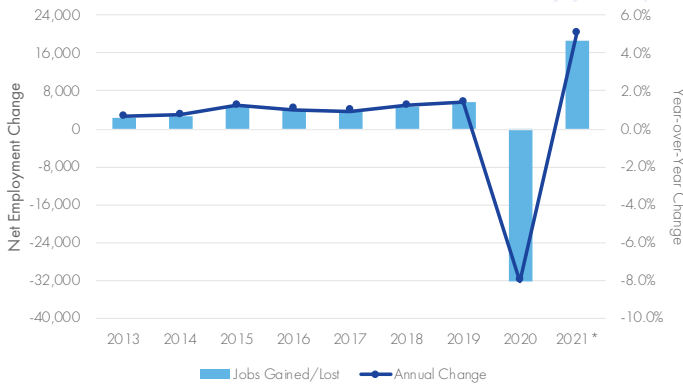


Looking Ahead

The Albuquerque multifamily market is forecast to remain strong in the coming quarters. Renter demand for units is elevated, but construction of new units has not kept pace with move-ins. While there are several projects in the development pipeline, supply and demand will likely be closely aligned at least through the next year. Projects are scheduled to deliver at a fairly steady clip of one or two new developments per quarter throughout 2022 and into 2023. Persistent renter demand should be sufficient to offset the new supply growth and keep occupancy levels elevated for several more quarters.

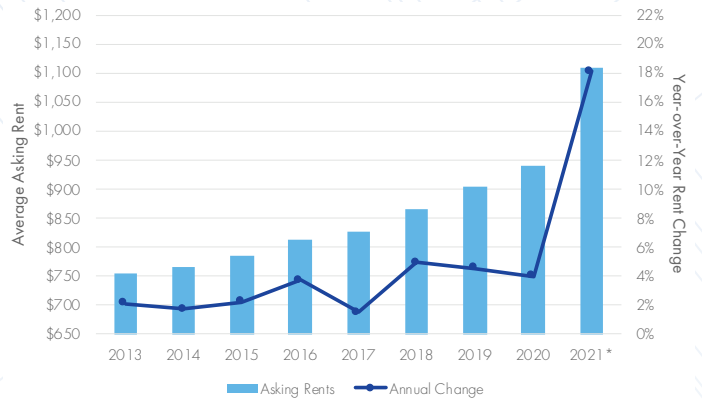
The strong leasing environment and tight conditions are expected to support above-average rates of rent growth through the remainder of this year and well into 2022, which should continue to fuel investment activity in the local multifamily market. Albuquerque does not often generate the rapid rent increases that other higher-growth Southwest markets can achieve, but the market's recent track record of rent growth should attract buyers that were not aware the recent gains were achievable in Albuquerque. Cap rates could compress slightly further, as new acquisitions are being underwritten with steeper anticipated rent increases than in previous years.

Employment Forecast



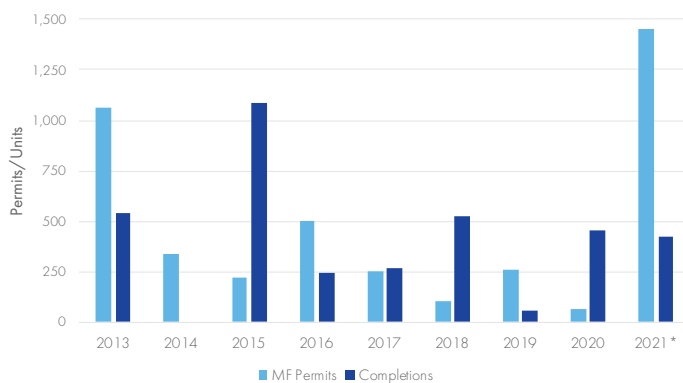
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



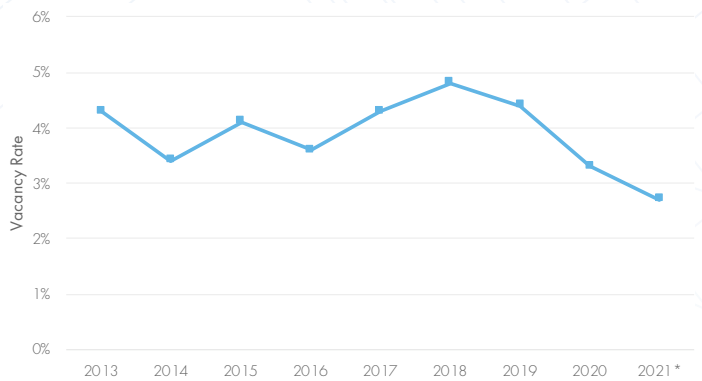
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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