

Market Insights

Albuquerque Multifamily 3Q 2022



Construction Activity



2,005

Units under construction

92

Units delivered (YTD)

Market Fundamentals



2.7%

Vacancy

-10bps

Year over year change

\$1,247

Asking Rent

+15.2%

Year over year change

Transaction Activity*



\$164,350

Median sales price per unit (YTD)

Rapid Rent Growth Persists

Highlights

- Albuquerque's multifamily market posted a healthy performance during the third quarter, as vacancy remains near an all-time low and rents continued to advance at a rapid pace. Deliveries have been minimal, but construction is gaining momentum and will pick up in the final months of the year and into 2023.
- Local vacancy ticked higher in the last three months, rising 10 basis points during the third quarter, to 2.7 percent. Year over year, the vacancy rate has fallen 10 basis points.
- Asking rents continued to record steep increases, advancing 2.8 percent during the third quarter to \$1,247 per month. Year over year, local rents have spiked 15.2 percent.
- Sales velocity has been active through the first three quarters of the year. In sales where pricing was available, the median sales price rose to \$164,350 per unit. Cap rates have begun to inch higher, with most properties selling with cap rates around 4.5 percent or higher in the third quarter.

Albuquerque Multifamily Market Overview

The Albuquerque multifamily market posted strong fundamentals during the third quarter. The steep rise in rents proved to be the most noteworthy property performance metric. Rents spiked by more than 2.5 percent in the last three months alone, and rents are up more than 15 percent from one year ago. This rent growth is being fueled by continued tight vacancy conditions. The rate inched higher in the third quarter, but at 2.7 percent is quite low, and with supply growth limited to this point in 2022, renters have fewer choices options when exploring housing options. This has given operators the upper hand in rent negotiations and is sparking new development. More projects will deliver beginning in the fourth quarter, with construction likely to carry over into 2023.

Investment conditions in Albuquerque improved during the third quarter, but the current pace of transactions is likely going to prove difficult to sustain in the near term. To this point, the extremely tight operating conditions have supported investor demand, and sales velocity is 20 percent higher than it was during the same period last year. Rising interest rates and an increased level of economic uncertainty began to act as a drag on investment activity at the end of the third quarter, a trend that could remain in place through the remainder of the year. While the number of properties that may trade is in question, prices are showing clear signs of trending higher; the median sales price year to date reached \$164,350 per unit, up nearly 25 percent from the 2021 figure.

* In transactions where pricing is available

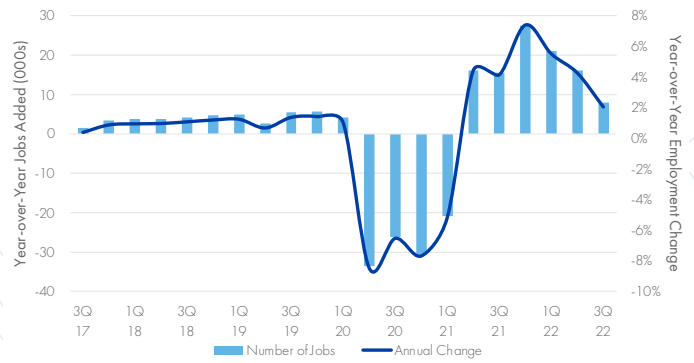
Employment

- The Albuquerque employment market continued to add jobs in recent months, but at a more modest pace than in recent periods. Area employers added 1,300 jobs during the third quarter. Year over year, local employment has expanded by 8,000 workers, an increase of 2.1 percent.
- Growth in retail employment outperformed the overall market during the past 12 months. The sector has expanded by 4.7 percent in the past year, with the addition of 1,900 jobs.
- Internet provider Vexus Fiber is expanding in Albuquerque. The company is adding 150 permanent jobs and the company's expansion plan will also result in 200 construction jobs over a period of five phases.
- **Forecast:** Albuquerque's local economy is forecast to continue growing through the end of the year, with the addition of 4,500 workers during 2022, an annual increase of 1.1 percent. This level of growth closely tracks the average pace of expansion recorded from 2015 to 2019.



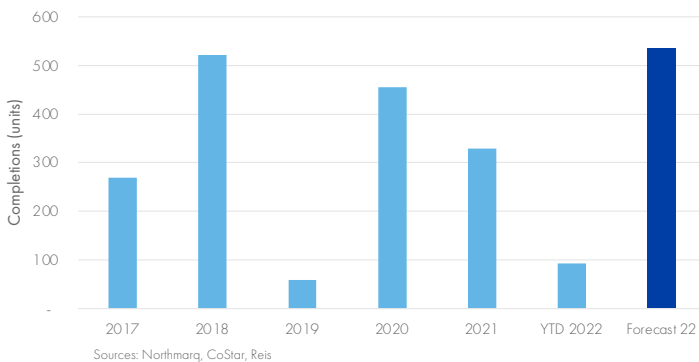
Year over year, local employment has expanded by 8,000 workers.

Employment Overview



Projects totaling roughly 2,005 units are under construction.

Development Trends



Development and Permitting

- No significant projects came online during the third quarter, and deliveries have been light for much of the year. Fewer than 100 units have been completed year to date. A handful of projects are on pace to be completed during the fourth quarter.
- Despite minimal completions in recent months, apartment developers are actively building new units and the pace of construction will accelerate beginning in 2023. Projects totaling roughly 2,005 units are currently under construction throughout Albuquerque, up 37 percent from one year ago.
- Multifamily permitting was virtually nonexistent during the third quarter, after permits for approximately 950 units were pulled in the first half of the year. Prior to spiking in 2021, annual permitting totals averaged roughly 350 units from 2010 to 2020.
- **Forecast:** The pace of apartment deliveries is forecast to pick up in the remainder of the year. Projects totaling roughly 535 units are projected to come online in 2022, marking the most completions in a year since 2015.

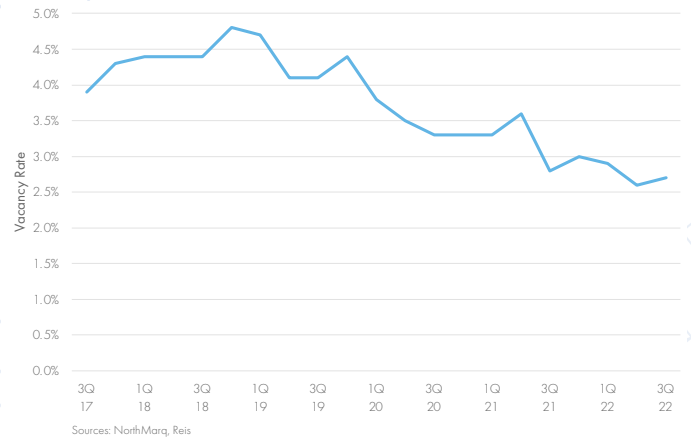
Vacancy

- In recent months, local vacancy inched higher after reaching an all-time low in the second quarter. The vacancy rate rose 10 basis points in the third quarter to 2.7 percent.
- Local vacancy has remained consistently low for the past several quarters in Albuquerque. The rate has tightened 10 basis points during the past 12 months. In the last year, vacancy in Albuquerque's Downtown/Southwest submarket has recorded the largest improvement. The vacancy rate in the submarket dropped 90 basis points in the past year, ending the third quarter at 3.9 percent.
- Net absorption in high-end properties accelerated in the third quarter, driving vacancy lower in Class A properties. The Class A vacancy rate concluded the third quarter at 2.4 percent, 70 basis points lower than one year earlier.
- **Forecast:** Vacancy is forecast to inch higher in the coming months as the pace of deliveries accelerates. The vacancy rate is projected to finish the year at 2.9 percent, 20 basis points higher than the current rate, but 10 basis points lower than the year-end 2021 figure.



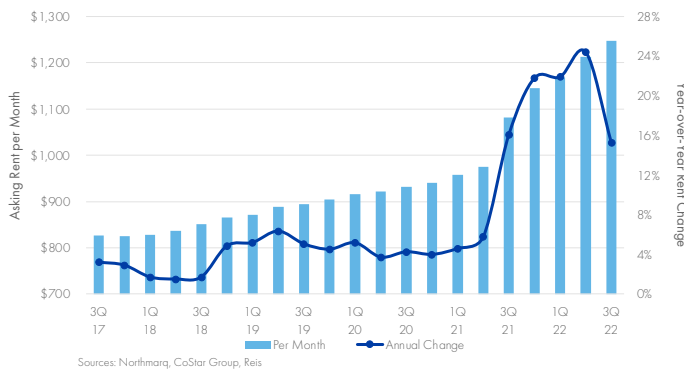
Local vacancy has remained consistently low.

Vacancy Trends



During the past 12 months, asking rents spiked 15.2 percent.

Rent Trends



Rents

- The tight operating conditions are supporting rapid rent increases in Albuquerque. Asking rents advanced 2.8 percent during the third quarter, reaching \$1,247 per month. This followed a gain of 3.9 percent during the second quarter.
- During the past 12 months, asking rents spiked 15.2 percent, rising by more than \$160 per month. Albuquerque's most expensive submarket, the Northeast, posted year-over-year rent growth of 17.5 percent, closing the third quarter at \$1,436 per month.
- While rents for all asset classes have trended higher in the past year, combined average rents for Class B and Class C units have recorded the strongest gains. Year over year, the combined Class B and Class C asking rents rose nearly 17 percent to \$1,066 per month.
- **Forecast:** Rents in Albuquerque are expected to continue trending higher during the fourth quarter, but at a slower pace than in recent periods. Rents are forecast to end 2022 at \$1,255 per month, an annual increase of 9.6 percent.

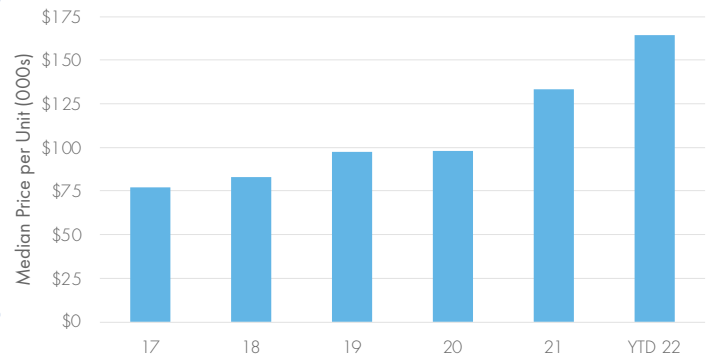
Multifamily Sales

- The very strong operational performance in the Albuquerque market in recent quarters has attracted investment capital. Sales velocity accelerated by more than 20 percent from the second quarter to the third quarter. Transactions to this point in 2022 are up approximately 20 percent from the same period last year.
- In transactions where pricing was available, the median sales price through the first three quarters was \$164,350 per unit. Year to date, per-unit pricing has increased by nearly 25 percent from last year's levels.
- Cap rates have trended higher in recent months, and properties are generally selling with cap rates near 4.5 percent or higher. Additional cap rate increases may be necessary to keep pace with rising financing costs.



The median sales price was
\$164,350 per unit.

Investment Trends



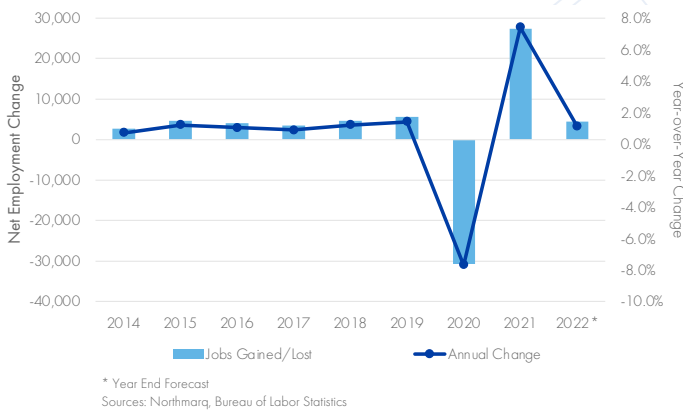
Sources: NorthMarq, CoStar

Looking Ahead

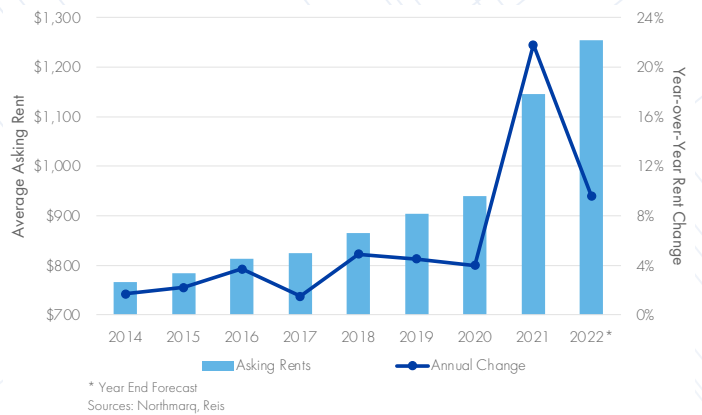
While the Albuquerque multifamily market will remain healthy in the coming quarters, a repeat of the recent strengthening is unlikely. An increase in deliveries will likely result in a minor vacancy uptick, particularly during a period of slowing economic growth. Still, multifamily vacancies should remain below 3.5 percent throughout much or all of 2023, allowing for continued increases in rents. The upward trajectory on rents is also likely to level off, following more than a year of rapid rent gains that are unsustainable for any extended period. Construction is occurring throughout the region, with a handful of projects located in the North Valley area, near Interstate 25 and Paseo del Norte Boulevard. This under-supplied portion of the market features a vacancy rate below the market average.

The Albuquerque multifamily investment market is likely to be pulled in two divergent directions in the coming quarters. The region's consistently strong property performance should attract capital, sustaining investor demand. Despite the strong property fundamentals, the rising borrowing costs will create some obstacles in getting deals done, particularly in a market where the traditionally lower levels of transaction volume makes price discovery a challenge during shifts in market cycles. The disconnect between buyers and sellers can prove particularly difficult to narrow in sales of 1960s- and 1970s-vintage Class B and Class C properties, which generally account for a significant share of the market's property sales. Still, as interest rates stabilize, cap rates will likely reach an equilibrium, allowing for a greater number of deals to close.

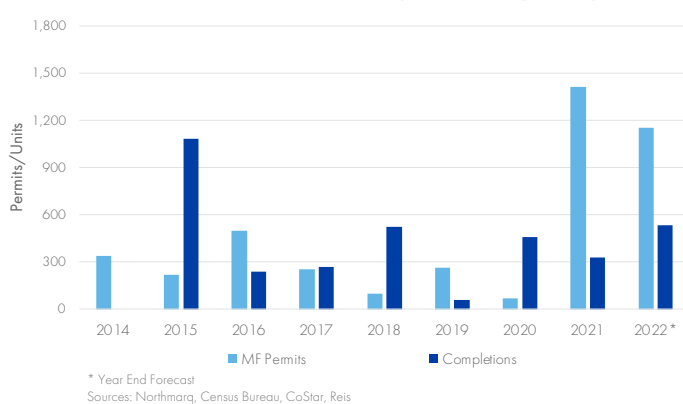
Employment Forecast



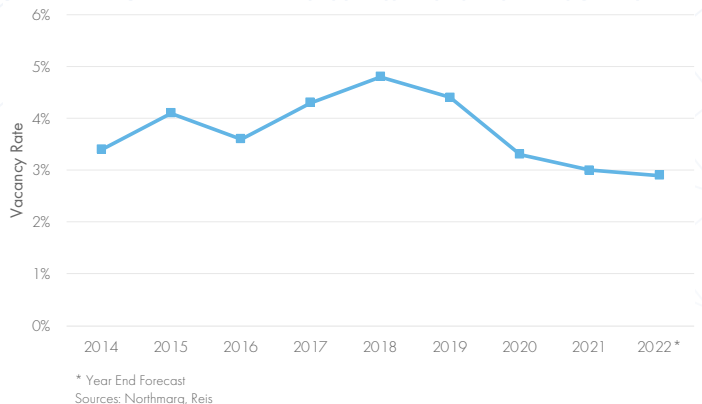
Rent Forecast



Construction & Permitting Forecast



Vacancy Forecast





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Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.