

# Tight conditions to prompt heightened deliveries in 2023

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **2,005**

UNITS DELIVERED **92**

## MARKET FUNDAMENTALS



VACANCY RATE **1.9%**

YEAR-OVER-YEAR CHANGE **-110bps**

ASKING RENTS **\$1,283**

YEAR-OVER-YEAR CHANGE **+12.1%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT\* **\$133,100**

\* Transactions where pricing is available

## HIGHLIGHTS

- Property fundamentals in the Albuquerque multifamily market continued to strengthen during the fourth quarter, as the market's supply shortage kept vacancies tight. In response to the low vacancy conditions, operators increased rents aggressively in 2022.
- Asking rents continued to rise at a rapid rate, as rents advanced 2.9 percent in the last three months of 2022 to \$1,283 per month. Area rents increased by 12.1 percent year over year.
- Multifamily transactions dipped from the third quarter to the fourth quarter, but transaction counts for the full year did not fall outside of the region's historical range. In sales where pricing was available, the median price in 2022 was \$133,100 per unit, down less than 1 percent from the median price in 2021.
- Vacancy conditions tightened in recent months, as supply growth was limited in 2022 and absorption levels remained strong. The vacancy rate dropped 80 basis points during the fourth quarter to 1.9 percent. Year over year, local vacancy improved by 110 basis points.

## ALBUQUERQUE MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Albuquerque multifamily market continued to strengthen during the fourth quarter, as vacancy fell to cyclical lows and asking rents continued to rise. Renter demand remains healthy, but the market's extremely tight vacancy conditions are primarily due to the lack of new supply in recent periods, a condition that will begin to reverse course in 2023. The heightened occupancy levels throughout the region allowed operators to continue to push rents higher at a rapid pace. The construction pipeline expanded somewhat in 2022 as multifamily developers are expecting to ease some of the undersupply conditions going forward.

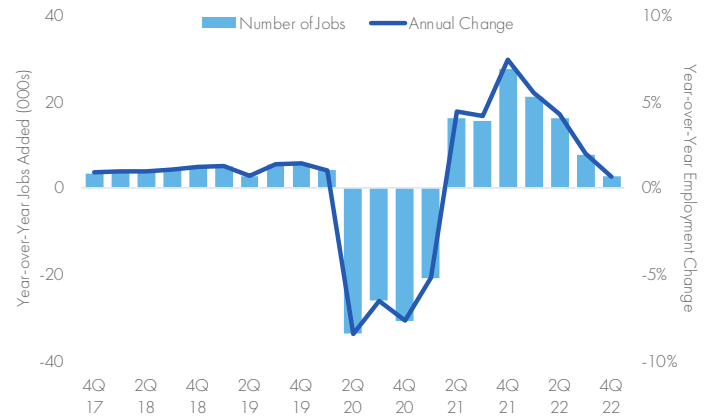
The Albuquerque multifamily investment market recorded a healthy performance during 2022 despite some slowing towards the end of the year. Transaction volume tapered off from the third quarter to the fourth quarter, as rising interest rates and borrowing costs hindered investment activity in recent months. Although the pace of deals slowed slightly in the last few months, transaction volume was consistent with recent years. Pricing held fairly steady in recent periods. In transactions where pricing was available, the median sales price was \$133,100 per unit in 2022, nearly identical to pricing levels in 2021.

## EMPLOYMENT

- After recording modest gains during the third quarter, the pace of job growth accelerated in the Albuquerque employment market at the end of 2022. For the full year, employers hired 2,600 net new workers, an increase of 0.7 percent.
- The leisure and hospitality sector was Albuquerque’s top-performing industry in 2022. Employment in the sector expanded by 4.4 percent in the past year, adding 1,800 workers.
- Amazon recently broke ground on a new 1 million-square-foot fulfillment center in Los Lunas. The facility will be located directly west of Meta’s data center. The Amazon facility is forecast to be completed in late 2023, and the company plans to hire 1,000 workers at this site.
- **FORECAST:** The local labor market is expected to add workers at a fairly consistent rate in 2023. Net employment growth is forecast to total 0.6 percent in the coming year, with a gain of approximately 2,500 workers.

For the full year, employers hired 2,600 net new workers.

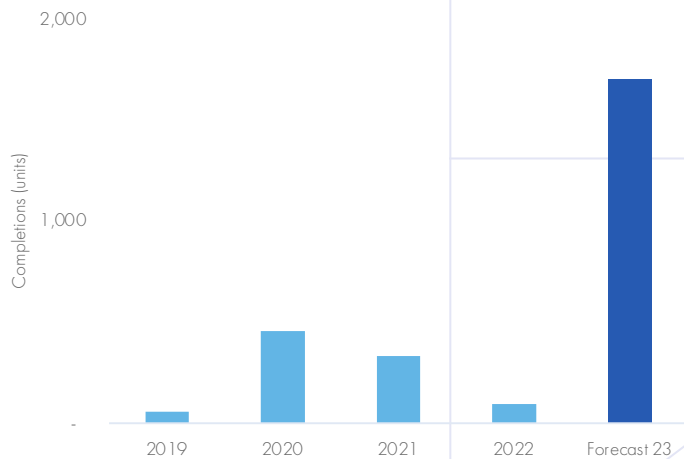
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Roughly 2,000 units were under construction at the end of 2022.

### DEVELOPMENT TRENDS



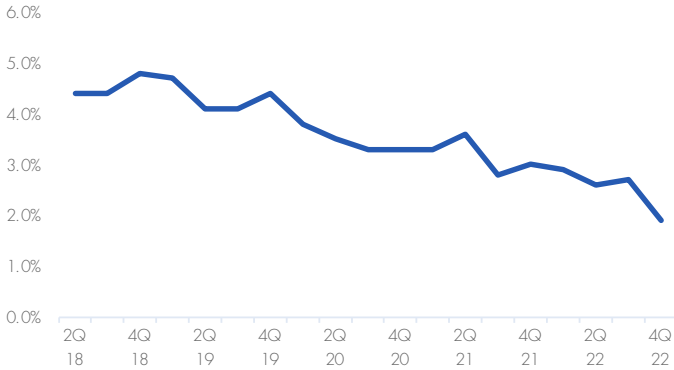
Sources: Northmarq, CoStar, Reis

### DEVELOPMENT & PERMITTING

- New apartment deliveries were minimal in 2022, with developers completing fewer than 100 units in the past year. Several projects that were initially scheduled to be delivered in 2022 will come online in 2023.
- The construction pipeline expanded slightly in the past year. Projects totaling more than 2,000 units were under construction at the end of 2022, up nearly 10 percent from one year ago.
- Developers pulled permits for approximately 1,050 multifamily units in 2022, down about 25 percent from the peak levels recorded in the prior year. Permitting activity was concentrated in the first few months; less than 20 percent of the total multifamily permits that were pulled in 2022 were issued in the second half of the year.
- **FORECAST:** Apartment deliveries are expected to spike in 2023, as projects totaling more than 1,700 units are forecast to come online in the year ahead.

Year over year, local vacancy improved by 110 basis points.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

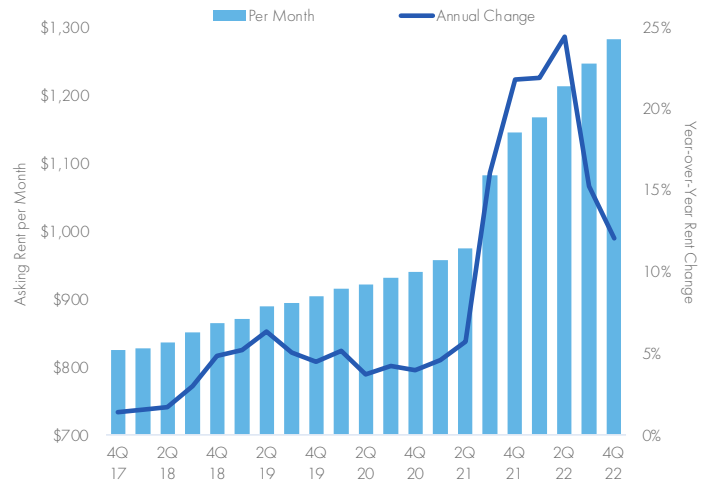
- Vacancy conditions tightened significantly in recent months, as absorption was positive and supply growth was minimal. The vacancy rate fell 80 basis points in the fourth quarter to 1.9 percent, a cyclical low for the local market.
- Year over year, local vacancy improved by 110 basis points. Vacancy fell across the entire region during 2022, with the North Central submarket recording the steepest declines. The rate in this submarket fell 170 basis points during the past 12 months, finishing 2022 at 1.4 percent.
- While vacancy fell across all asset classes in recent quarters, the most dramatic tightening occurred in the top tier. Vacancy in Class A properties dropped 190 basis points in 2022 to 1.6 percent.
- **FORECAST:** Vacancy is expected to bounce off of current lows as new supply enters the market. The vacancy rate is forecast to rise 80 basis points in the next 12 months, finishing 2023 at 2.6 percent.

RENTS

- With vacancy rates tight, rents continued to record steep increases. Local asking rents advanced 2.9 percent during the fourth quarter, reaching \$1,283 per month.
- Average rents spiked 12.1 percent in 2022. While rents trended higher across all of Albuquerque’s submarkets in recent periods, the region’s most expensive area, the Northeast submarket, posted the largest gains. Year over year, asking rents in the Northeast submarket advanced 15.1 percent to \$1,507 per month.
- Rents for Class B and Class C units continued to increase at a rapid rate in 2022. After rising by more than 20 percent in 2021, the combined Class B and Class C asking rents increased an additional 15.4 percent during 2022, reaching \$1,101 per month.
- **FORECAST:** Rent increases are expected to be more modest in 2023, following the rapid gains recorded in each of the past two years. Asking rents are forecast to rise nearly 3 percent during the next 12 months, ending 2023 at around \$1,320 per month.

Average rents spiked 12.1 percent in 2022.

RENT TRENDS



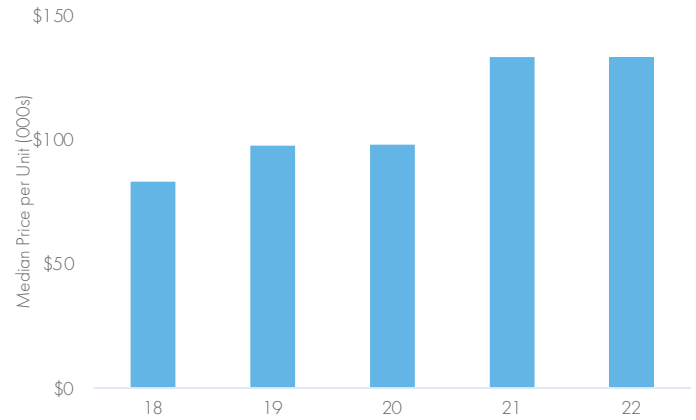
Sources: Northmarq, Reis

## MULTIFAMILY SALES

- Multifamily investors continued to trade properties in the last few months of the year, although total sales volume fell 36 percent from the third quarter to the fourth quarter. Despite the recent slowing, sales activity in 2022 was up 17 percent from the 2021 annual total.
- Prices were mostly stable in recent periods. In transactions where pricing was available, the median sales price finished 2022 at \$133,100 per unit, essentially unchanged from the 2021 figure.
- Cap rates continued to trend higher in recent months as rates averaged roughly 5.25 percent during the fourth quarter. Most properties that sold within the last three months recorded cap rates between 4.75 percent and 5.75 percent.

*The median sales price finished 2022 at \$133,100 per unit.*

### INVESTMENT TRENDS



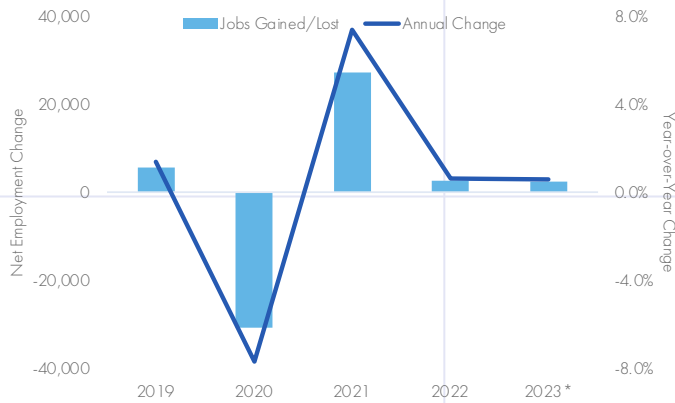
Sources: Northmarq, CoStar

## LOOKING AHEAD

After property fundamentals strengthened considerably in the Albuquerque multifamily market in recent quarters, operating conditions are expected to cool in 2023. The ongoing shortage of new supply pushed the vacancy rate to a cyclical low in 2022. Going forward, multifamily developers are expected to significantly ramp up the pace of deliveries in 2023, which will begin to drive the vacancy rate higher. Local vacancy is forecast to rise as new projects enter the market, but the rate is expected to finish the year below 3 percent, well below the market’s historical average. Vacancy averaged about 4 percent from 2016 to 2020. Asking rents are expected to advance at a more modest pace in 2023, with a projected annual growth rate of nearly 3 percent.

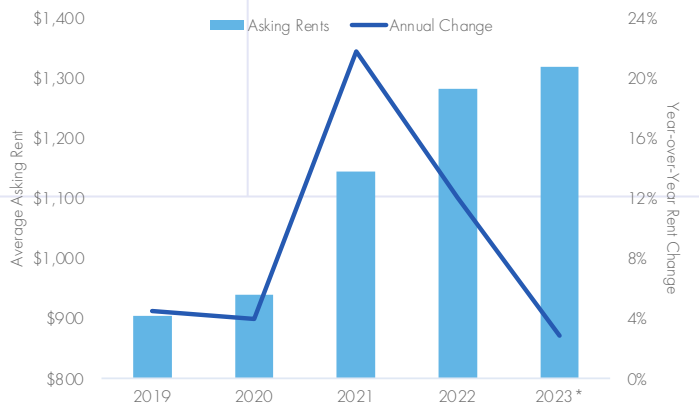
Investor demand for local multifamily properties should remain steady, but uncertainty surrounding the economy and debt markets may hinder activity in the first half of 2023. Transaction volume is expected to remain modest in the coming months, although activity could pick up in the second half of the year. While sales velocity in 2023 may lag levels recorded in 2022, deals will still take place, including some of the upcoming deliveries that will enter the investment market. Despite potential economic concerns, the recent spikes in asking rents and elevated occupancy levels should support investor sentiment. The rising cost of capital will carry over into market cap rates, which had compressed to below 4 percent at the end of 2021. In the coming months, a range of 5.5 percent to 6 percent is likely to prevail.

### EMPLOYMENT FORECAST



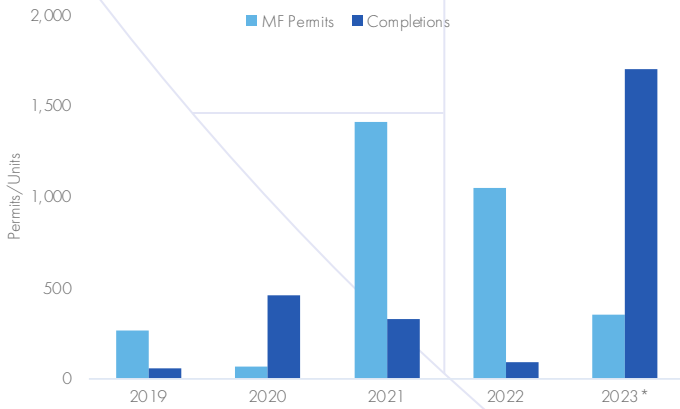
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### RENT FORECAST



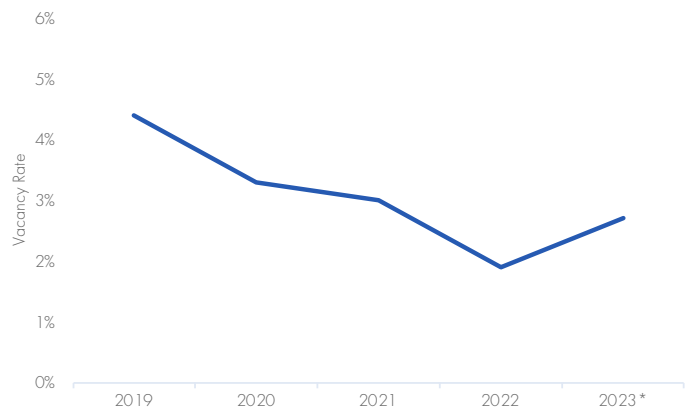
\* Year End Forecast  
Sources: Northmarq, Reis

### CONSTRUCTION & PERMITTING FORECAST



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

### VACANCY FORECAST



\* Year End Forecast  
Sources: Northmarq, Reis





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