

Market Insights

Albuquerque Multifamily 1Q 2022



Construction Activity



2,148

Units under construction

92

Units delivered (YTD)

Market Fundamentals



2.9%

Vacancy

-40bps

Year over year change

\$1,168

Asking Rent

+21.9%

Year over year change

Transaction Activity*



\$218,300

Median sales price per unit (YTD)

Tight Vacancies Fueling Rent Growth, New Development

Highlights

- Albuquerque's strengthening economy and elevated renter demand drove down vacancy rates and pushed rents higher in the first quarter of 2022. Improving conditions carried over to the investment market, where sales were active, prices rose, and cap rates remained low.
- After a slight uptick in the previous quarter, the local vacancy rate dipped during the first three months of 2022, falling 10 basis points to 2.9 percent. Vacancy tightened by 40 basis points year over year.
- Asking rents rose 2 percent to \$1,168 per month in the first quarter. Year over year, asking rents in Albuquerque have spiked 21.9 percent, one of the fastest rates of growth in the country.
- The multifamily investment market in Albuquerque remained active during the first quarter, with sales velocity matching levels recorded during the same time last year. Prices surged, with the median price reaching \$218,300 per unit in transactions where pricing was available. Cap rates averaged 3.8 percent, matching levels from the previous quarter.

Albuquerque Multifamily Market Overview

Operating conditions in the Albuquerque multifamily market strengthened during the first quarter as momentum continued to build in the local economy. The vacancy rate inched below 3 percent, and these tight conditions have allowed for a rapid pace of rent growth in each of the past three quarters. Class A properties have recorded the most dynamic rent acceleration, which will continue to fuel new development. Deliveries are expected to pick up throughout the year, as projects totaling nearly 500 more units are slated to come online by year end. Despite the new additions to supply, the employment market is expected to drive enough renter demand to keep vacancy near current levels.

The strengthening property fundamentals are reflected in the local investment market. Total sales activity matched levels from the same period one year ago, while prices surged, and cap rates remained low. Sales during the first quarter were dominated by Class B assets across many different submarkets, reflecting widespread investor demand for properties that offer upside, particularly those properties where rent gains can be implemented. In transactions where pricing was available, the median price of sales in the first quarter reached \$218,300 per unit, while cap rates averaged around 3.8 percent.

* In transactions where pricing is available

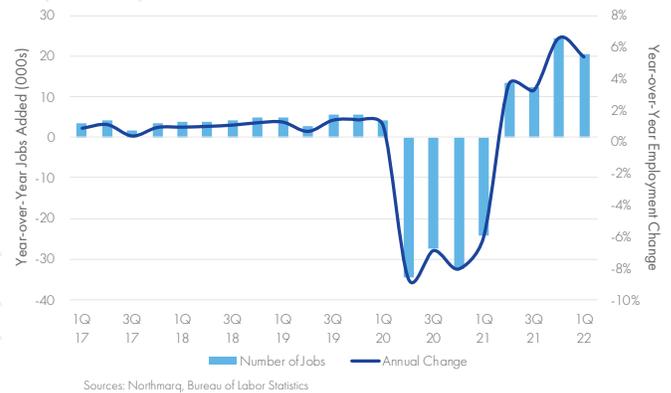
Employment

- Employment levels in Albuquerque continue to rebound. Year over year through the first quarter, employers have added 20,500 workers to total payrolls, a gain of 5.4 percent. During the first three months of this year, approximately 3,300 jobs were added.
- The trade, transportation, and utilities sector has accounted for around 20 percent of the total job growth in the past year. Employment in this industry increased by 6.5 percent in the past 12 months with the addition of 4,000 workers.
- The local manufacturing sector is expected to record additional growth in the coming years. A capital investment group has committed to a \$2 billion-aluminum manufacturing facility in Los Lunas that is expected to result in 950 new jobs. Construction is scheduled to begin in 2023.
- **Forecast:** After bouncing back in 2021, the local labor market is forecast to post additional gains in 2022. Employers in Albuquerque are expected to add around 12,000 workers this year, a 3 percent increase.



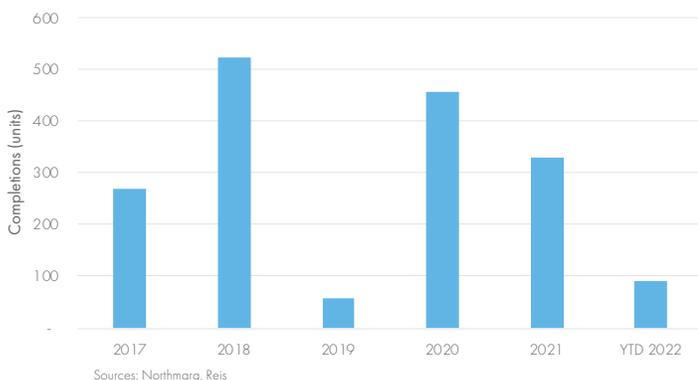
Year over year, employers have added 20,500 workers.

Employment Overview



Projects totaling more than 2,100 units are under construction.

Development Trends



Development and Permitting

- Construction in Albuquerque has maintained a mostly steady pace since 2020. During the first quarter, developers delivered approximately 90 units, closely tracking the average quarterly deliveries in recent years.
- Construction activity remained elevated during the first few months of 2022, with projects totaling more than 2,100 units under construction. Current construction levels are nearly three times higher than the total from one year ago.
- While the number of units that are under construction has risen, permitting activity slowed from the previous year. Thus far in 2022, developers have pulled permits for approximately 340 multifamily units, a decrease of 22 percent compared to the first quarter of 2021.
- **Forecast:** Deliveries are expected to accelerate in the months ahead, as multiple projects are on pace to come online. Total deliveries are forecast to reach more than 580 units in 2022, after fewer than 350 units were completed last year.

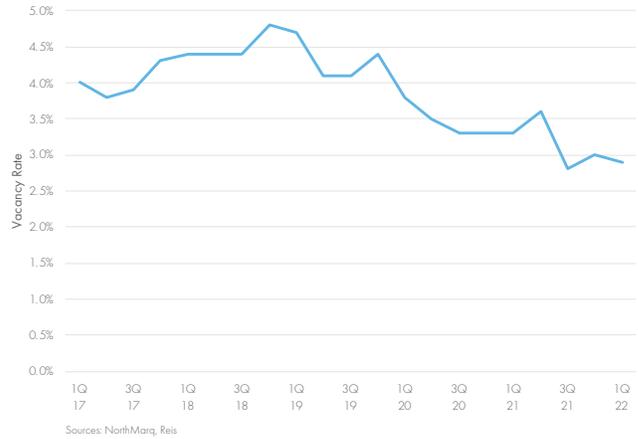
Vacancy

- Vacancies improved in Albuquerque during the first three months of 2022, with the average approaching the market’s record low. The rate has improved by 10 basis points since the end of the fourth quarter of last year, reaching 2.9 percent. The current rate is just 10 basis points above the lowest figure ever recorded in the area.
- The current vacancy rate is 40 basis points lower than the figure from one year earlier. Local vacancy has averaged 3.8 percent since the beginning of 2017.
- Vacancy in the Class A segment has remained very steady in recent quarters. The rate ended the first quarter at 3.7 percent, identical to one year ago. Net absorption in the top tier has totaled nearly 330 units, closely tracking the pace of deliveries during the past year.
- **Forecast:** An accelerating pace of deliveries is expected to cause the local vacancy rate to inch higher. Vacancies in Albuquerque are forecast to end this year at 3.1 percent, just 10 basis points higher than the year-end 2021 figure.



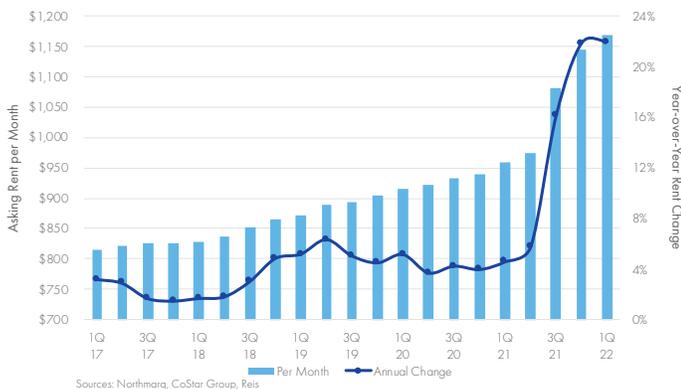
Vacancy has improved by 10 basis points since the end of the fourth quarter of 2021.

Vacancy Trends



Year over year, asking rents have increased by 21.9 percent.

Rent Trends



Rents

- Area rents spiked by more than 20 percent in 2021, with the strongest gains recorded in the second half of the year. The momentum carried over into this year; asking rents grew by 2 percent during the first quarter, reaching \$1,168 per month.
- Year over year through the first quarter, asking rents have increased by 21.9 percent. The tight vacancy conditions and the continued gains in the local labor market should support additional increases.
- Class A properties recorded the largest rent increases out of any segment of the market. Asking rents in Class A units grew by 27.6 percent in the past 12 months, ending the first quarter at \$1,375 per month.
- **Forecast:** Asking rents are forecast to expand by 8 percent in 2022, ending the year at \$1,237 per month. The local average rent growth from 2014 to 2019 was 3.1 percent.

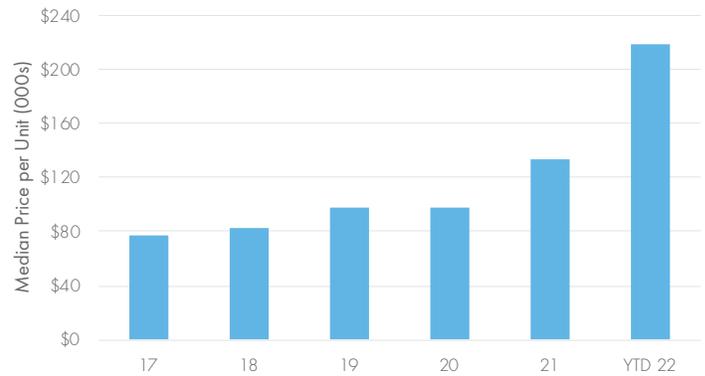
Multifamily Sales

- Sales of local multifamily properties during the first quarter closely tracked levels from the same period in 2021. Transactions were led by the sale of larger-scale projects involving 150 units or more.
- Prices surged during the first quarter, reflecting the strong investor demand in the market. In transactions where pricing was available, the median price during the first quarter was \$218,300 per unit, up 64 percent from the median price in 2021.
- As prices have surged, cap rates have remained low through the first months of 2022. Cap rates among recent transactions have averaged between 3.75 percent and 4 percent, tracking levels from the second half of last year.



The median price during the first quarter was \$218,300 per unit.

Investment Trends



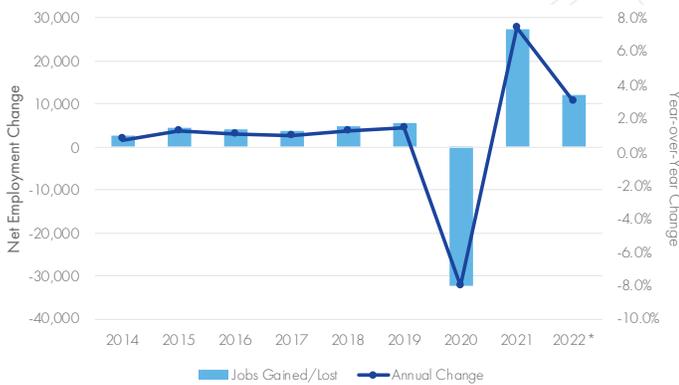
Sources: NorthMarq, CoStar

Looking Ahead

The strong start to 2022 has set the stage for a healthy year of multifamily property performance in Albuquerque. At the current pace of growth, local employment levels are forecast to reach new highs by the middle of the year, fueling ongoing renter demand. The demand will allow vacancies to remain low and in a fairly tight range for most of the year. The delivery of hundreds of new units will likely cause a minor uptick in vacancies in the second half of the year, but the rate is still expected to remain low enough to support continued rent growth. Rent gains will likely also be supported by the rising cost of for-sale housing.

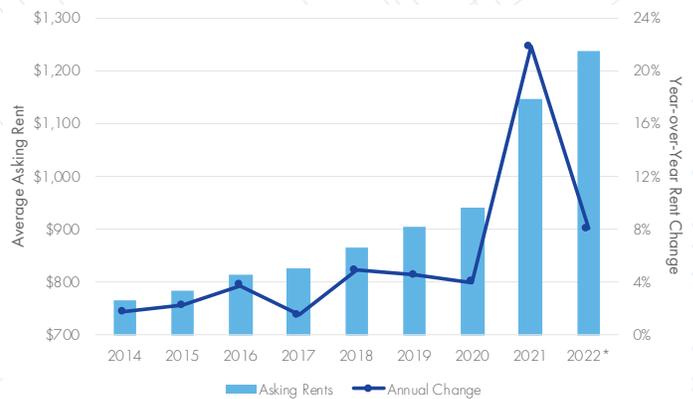
Investor sentiment is expected to remain positive throughout the year as local property performance metrics closely resemble those of some of Albuquerque's higher-growth neighboring markets. The properties that changed hands at the beginning of the year, generally, involved Class B properties as investors aim to implement value-add strategies. As new development brings new projects to the market, there may be an increase in the sale of Class A developments. There could be a bit of a leveling off in transaction activity in the near term as investors evaluate the impact of rising interest rates on cap rates. In recent years, cap rates have compressed from about 6.5 percent to under 4 percent.

Employment Forecast



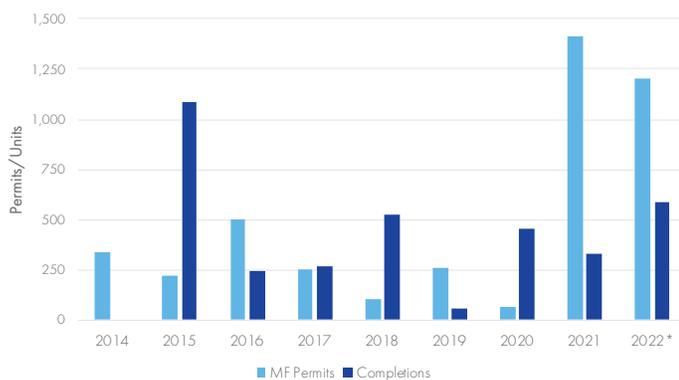
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



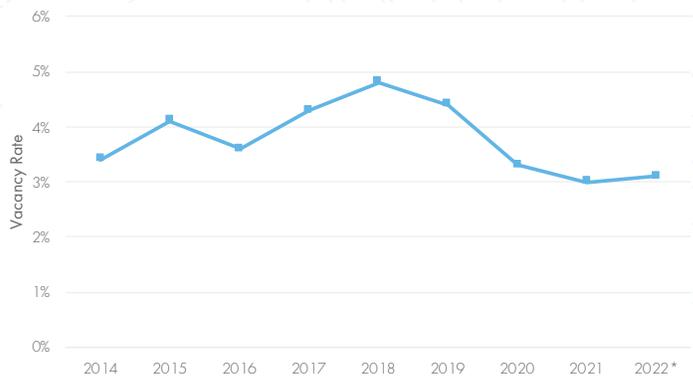
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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