

Albuquerque Multifamily

Vacancy Retreats to Lowest Level Since 2015

Highlights

- > The Albuquerque multifamily market continued to post strong performance during the third quarter, with vacancies declining to a five-year low and rents continuing to trend higher.
- > Apartment vacancy in Albuquerque has tightened in each of the first three quarters of 2020. The rate fell 20 basis points during the third quarter, dipping to 3.3 percent.
- > With vacancy improving, asking rents have increased 4.3 percent year over year. Rents ended the third quarter at \$932 per month.
- > Investment activity slowed during the third quarter, and sales velocity is down approximately 30 percent when compared to one year earlier. In transactions where pricing information is available, the median price has been approximately \$97,700 per unit and cap rates have averaged 5.5 percent.

Albuquerque Multifamily Market Overview

Albuquerque is one of the few multifamily markets in the country where operating conditions have steadily improved throughout 2020, despite the economic volatility brought about by the coronavirus outbreak. The market continued to improve during the third quarter, with the vacancy rate tightening to a five-year low and rents creeping higher. One factor supporting multifamily operations has been the relative resilience of the local labor market. While annual job losses across the country are forecast to total approximately 5 percent in 2020, total losses in Albuquerque are likely to be far less severe.

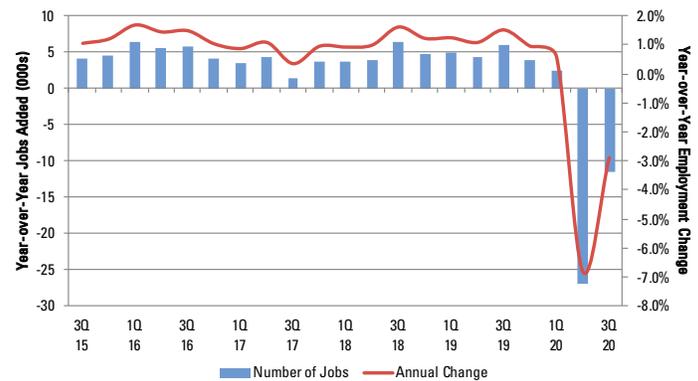
Q3 Snapshot	Albuquerque Market
	Market Fundamentals
	Vacancy 3.3%
	- Year Over Year Change -80 bps
	Asking Rent \$932
	- Year Over Year Change +4.3%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$97,700
	Cap Rates (Avg YTD) 5.5%
	Construction Activity
	Units Under Construction 792
	Units Delivered YTD 456

The number of multifamily properties that have sold in Albuquerque in 2020 has lagged levels from the preceding year, and sales velocity slowed during the third quarter. While fewer properties have changed hands, investor sentiment is positive, buoyed by the market's healthy property performance. Pricing has remained fairly consistent, but per-unit prices at the top end of the range have generally trended higher. Cap rates are generally averaging in the mid-5-percent range, pushed lower in recent years by declining financing costs and strengthening property revenues.

Employment

- > After job losses totaled more than 28,000 positions during the second quarter, the market came bouncing back in the third quarter. Local employers added back 18,200 positions in the third quarter.
- > Year over year, total employment in Albuquerque is down 2.9 percent, with a net decline of approximately 11,500 jobs. During the spring, job losses totaled nearly 50,000 positions, but the economy started adding positions in May; since May, approximately 36,000 jobs have been returned to the Albuquerque market.
- > Professional employment could be a source of growth in the coming months. The professional and business services sector added more than 2,000 workers during the third quarter, offsetting losses recorded in the first half of the year. Since 2015, professional employment has expanded at an annual pace of approximately 1.3 percent.
- > **Forecast:** Nearly every major market in the country will record net job losses in 2020, but cuts are forecast to be less severe in Albuquerque than in most other regions. Total employment in the local market is likely to contract by less than 1 percent, or approximately 2,500 net job losses.

Employment Overview

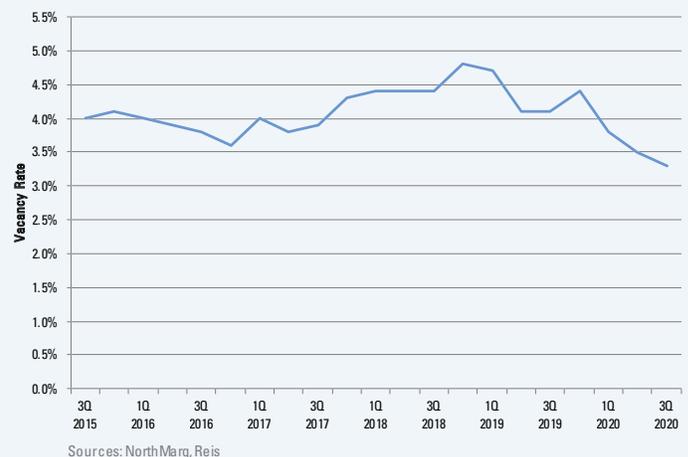


Since May, approximately 36,000 jobs have been returned to the Albuquerque market

Vacancy

- > The local vacancy rate has been trending lower throughout 2020, falling in each of the year's first three quarters. During the third quarter, vacancy fell 20 basis points, dipping to 3.3 percent.
- > Year over year, the local vacancy rate is down 80 basis points. The Albuquerque market has been recording annual vacancy declines since the middle of 2019. The current vacancy figure is the lowest vacancy rate in Albuquerque since the first quarter of 2015.
- > Vacancy in the area's Class A properties continued to tighten in the third quarter, falling 30 basis points to 3.6 percent. Less than two years ago, the Class A vacancy rate was nearly 200 basis points higher than the current figure.
- > **Forecast:** Vacancy is forecast to end the year at approximately 3.6 percent, 80 basis points lower than at the end of 2019.

Vacancy Trends

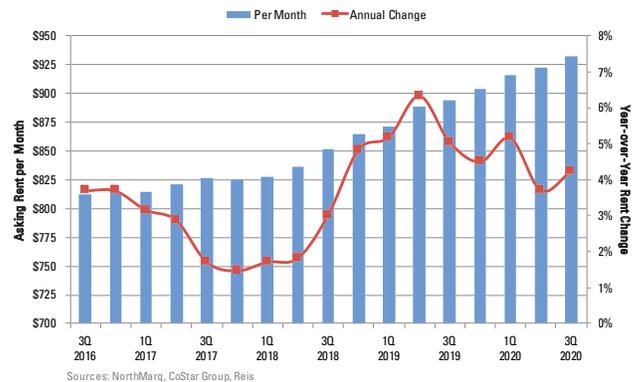


The current vacancy figure is the lowest rate since the first quarter of 2015

Rents

- > Rents are recording modest gains, posting quarterly increases in each period thus far in 2020. Asking rents ended the third quarter at \$932 per month.
- > Year over year through the third quarter, asking rents have increased 4.3 percent.
- > The combined asking rents in Class B and Class C apartments averaged \$789 per month in the third quarter, 2.5 percent higher than one year ago.
- > **Forecast:** With vacancy low, rents have additional room to push higher. Asking rents are forecast to rise 4 percent in 2020, ending the year at approximately \$940 per month.

Rent Trends

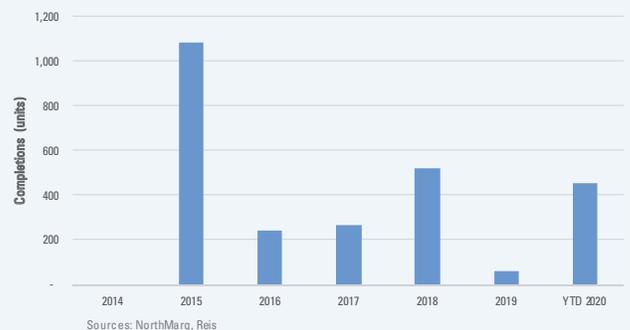


Asking rents ended the third quarter at \$932 per month

Development and Permitting

- > Developers have delivered approximately 450 units thus far in 2020. Apartment construction was minimal in 2019, but completions have averaged approximately 500 units per year since 2015.
- > Projects totaling nearly 800 units are under construction, up from a total of fewer than 300 units one year ago. The bulk of the units that are currently under construction are slated to come online by the middle of next year.
- > While there are several projects currently under construction, permitting for multifamily units has been minimal in 2020. Through the first three quarters of this year permits for approximately 50 multifamily units have been issued, down 65 percent from the same period in 2019.
- > **Forecast:** Deliveries should pick up in the fourth quarter, and developers are forecast to complete approximately 1,000 apartment units in 2020. This would mark the largest annual total of new rental units since 2015.

Development Trends



Projects totaling nearly 800 units are under construction

Multifamily Sales

- > Sales velocity slowed modestly during the third quarter, following fairly healthy activity in the first half of the year. Through the first nine months of 2020, transaction activity is down 30 percent when compared to the same period in 2019.
- > In transactions where sales prices have been reported in 2020, the median price has been approximately \$97,700 per unit. The high end of the pricing range is more than \$150,000 per unit, while the bulk of the transactions have traded between \$60,000 per unit and \$100,000 per unit.
- > Year to date, cap rates have averaged approximately 5.5 percent, following declines that began during the second half of 2019.

Investment Trends



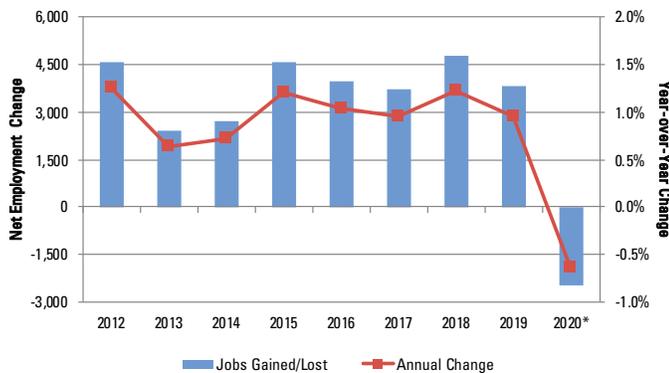
In 2020, the median price has been approximately \$97,700 per unit

Looking Ahead

The Albuquerque multifamily market is expected to continue to record strong operational performance in the coming quarters. The local employment market has been far less volatile than most other metro areas, particularly in key sectors such as government and education, and job losses have been less severe than the national rate of contraction. Area employment is expected to receive a healthy boost going forward, as Netflix recently announced a plan to invest another \$1 billion and hire an additional 1,000 workers at the company's ABQ Studios. With employment at the local level holding fairly steady, renter demand is expected to remain healthy, allowing for additional rent increases going forward.

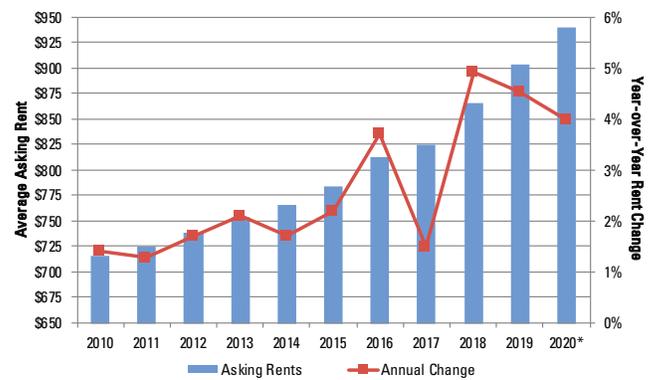
Investors are expected to continue pursuing apartment acquisitions in Albuquerque as they become available in the coming quarters. The market's ongoing outperformance—highlighted by tightening vacancy and steady renter demand—is forecast to fuel investment activity. With opportunities for purchase limited and investor demand strong, cap rates will likely remain near current compressed levels. Low financing rates are forecast to continue contributing to low cap rates; with few factors expected to push interest rates higher in the coming quarters, there should be minimal upward pressure on area cap rates.

Employment Forecast



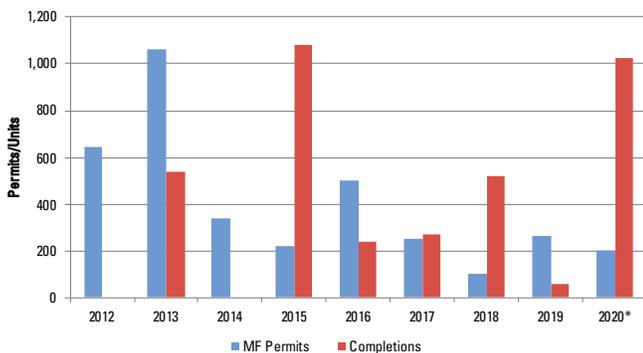
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



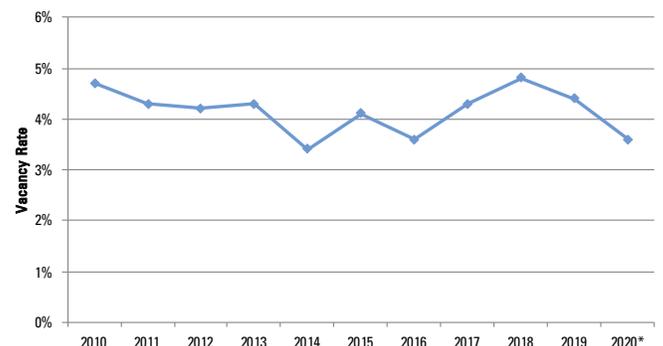
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

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