

# Market Insights

Albuquerque Multifamily 4Q 2021



## Construction Activity



**1,826**

Units under construction

**329**

Units delivered (YTD)

## Market Fundamentals



**3.0%**

Vacancy

**-30bps**

Year over year change

**\$1,145**

Asking Rent

**+21.8%**

Year over year change

## Transaction Activity\*



**\$133,500**

Median sales price per unit (YTD)

# Rapid Rent Growth Recorded in Second Half of 2021

## Highlights

- The fourth quarter proved to be a strong end to a year of rapid improvement in the Albuquerque multifamily market. Vacancies ended the year near all-time lows, rents continued to trend higher at a rapid clip, and the investment market sustained the momentum that had been building in previous quarters.
- After reaching a historical low in the third quarter, the local vacancy rate inched higher at the end of 2021. Vacancy rose 20 basis points in the final three months of the year, reaching 3 percent. Despite a slight increase in the final months of the year, area vacancies still posted a 30-basis point decline in 2021.
- Asking rents rose 5.8 percent in the fourth quarter, building on steep increases that occurred earlier in the year. For the full year, asking rents spiked 21.8 percent to \$1,145 per month.
- The past year was a consistently active one for sales velocity. Prices spiked, outpacing the rate of rental increases. Cap rates compressed, ending the year below 4 percent.

## Albuquerque Multifamily Market Overview

The Albuquerque multifamily market thrived in 2021 with property fundamentals strengthening in nearly every metric. Asking rents recorded the largest year-over-year increase ever for the region, while vacancies improved to end the year at a near record-low figure. The local economy continued to recover as employers added back jobs lost during the pandemic. Albuquerque's growing economy has attracted businesses to establish a presence in the region, creating new jobs and fueling renter demand. Developers are beginning to respond to the heightened demand by ramping up construction activity for new apartment projects.

The investment market strengthened in 2021 with a rise in transaction activity, leading to an increase in pricing and cap rate compression. The number of multifamily transactions in Albuquerque nearly doubled from levels in 2020 and was considerably higher than the market's recent trend. The median price of all sales in transactions where pricing was available increased by 36 percent in 2021, with the highest prices occurring in the fourth quarter. The pool of properties changing hands was a fairly diverse group of assets, indicating a positive investor sentiment for local multifamily properties.

\* In transactions where pricing is available

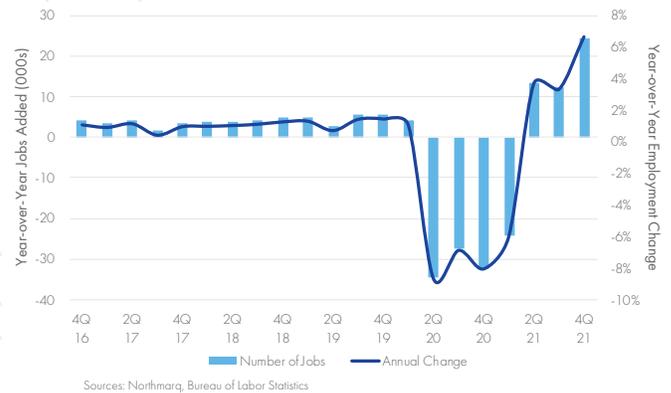
## Employment

- In 2021, employment levels in Albuquerque continued to recover. Employers added back 24,300 jobs to payrolls, an expansion of 6.6 percent.
- One of the top-performing sectors of the economy was mining and construction. Combined, these industries grew by 14 percent in the past year, creating 3,500 jobs in Albuquerque.
- Phoenix-based BH DevCo recently broke ground on a \$100 million industrial project in Los Lunas. Amazon will occupy the new facility, bringing an additional 600 jobs to the region.
- **Forecast:** Employment levels in Albuquerque are expected to fully recover from the economic shutdown and surpass the pre-pandemic peak in 2022. Employers are forecast to add 16,000 jobs to area payrolls, an increase of 4.1 percent.



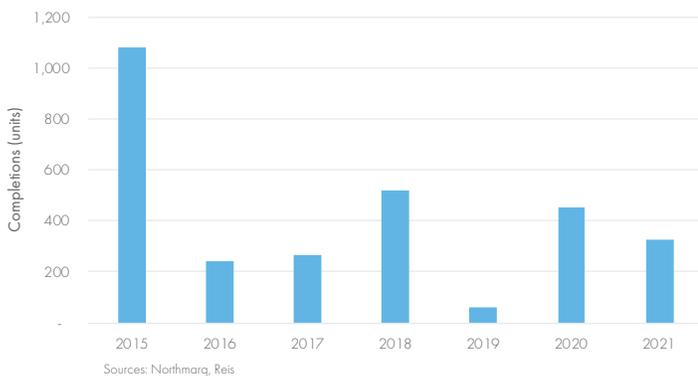
Employers added 24,300 jobs to area payrolls in 2021.

### Employment Overview



Projects totaling approximately 1,830 units are under construction.

### Development Trends



## Development and Permitting

- Albuquerque recorded a decrease in apartment deliveries in 2021. Approximately 330 units came online this year, down 36 percent from deliveries in 2020.
- Development levels were elevated at the end of 2021. Projects totaling approximately 1,830 units were under construction, up from 800 units at the end of 2020.
- Permitting activity accelerated in 2021 as developers pulled permits for over 1,400 multifamily units. Permitting stalled in 2020, with developers pulling permits for about 100 multifamily units.
- **Forecast:** Deliveries are expected to accelerate in the coming quarters as developers move new projects through the pipeline. Projects totaling nearly 650 units are forecast to come online in 2022, nearly doubling construction levels from the previous year.

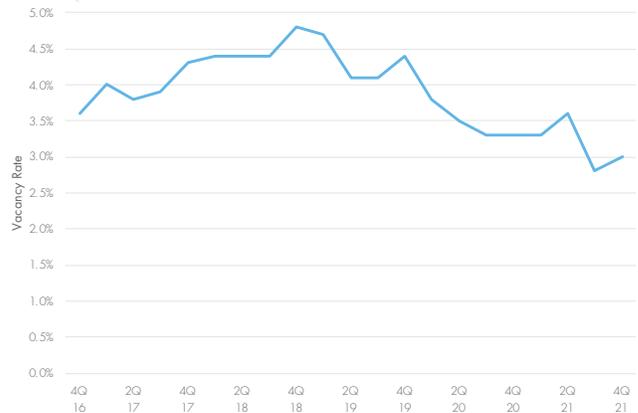
## Vacancy

- Vacancy recorded a slight uptick in the final months of the year. After dropping to the lowest point on record in the third quarter, the rate rose 20 basis points during the fourth quarter, ending 2021 at 3 percent.
- The vacancy rate in Albuquerque tightened by 30 basis points in 2021. Vacancy is considerably lower than the long-term trend; the current rate is 110 basis points lower than the five-year historical average.
- The lowest vacancy rates in the region are being recorded among Class B and Class C properties. The average vacancy among these asset types was 2.6 percent, a 60-basis point improvement from the figure at the end of 2020.
- **Forecast:** The near-record low vacancy rate provides a bright outlook for 2022. While it is unlikely that the rate will decrease much lower, vacancy is expected to remain stable until new supply outpaces renter demand. The vacancy rate is forecast to end 2022 at 3 percent, unchanged from the 2021 year-end figure.



Vacancy ended 2021 at 3 percent.

### Vacancy Trends

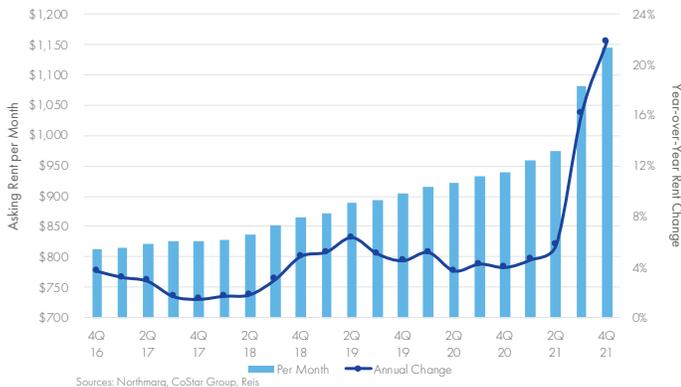


Sources: NorthMarq, Reis



For the full year, area asking rents surged 21.8 percent.

### Rent Trends



Sources: Northmarq, CoStar Group, Reis

## Rents

- Rents continued to advance at an accelerated pace during the fourth quarter, increasing by 5.8 percent from October to December. Asking rents in Albuquerque ended 2021 at \$1,145 per month.
- The Albuquerque multifamily market recorded its largest annual growth on record in 2021. For the full year, area asking rents surged 21.8 percent, advancing by more than \$200 per month.
- While steep rent increases were recorded across all segments of the market, higher-end, Class A properties posted the largest growth. Class A units in Albuquerque spiked nearly 28 percent in 2021, rising to \$1,370 per month.
- **Forecast:** After rent growth in Albuquerque reached an all-time high in 2021, it is expected that the momentum gained will carry over into 2022, however, the pace of growth will likely slow. Asking rents are forecast to advance about 6 percent in the year ahead, ending 2022 at \$1,215 per month.

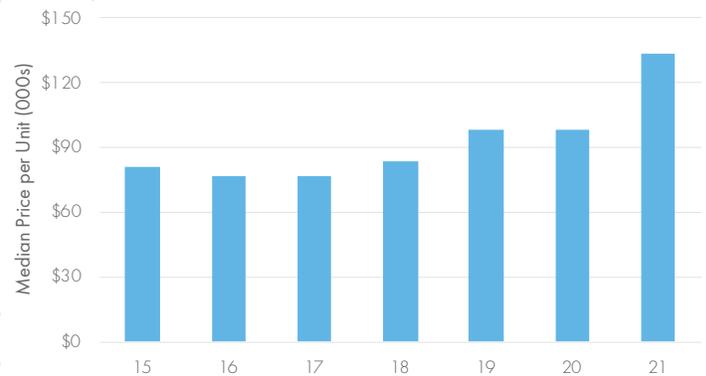
## Multifamily Sales

- The pace of quarterly transaction activity in Albuquerque was mostly consistent throughout much of 2021, with a steady number of property sales closing during most three-month periods. There was a modest increase in closed transactions during the fourth quarter, and total sales velocity was up 11 percent from average levels recorded in the preceding three years.
- The median price of multifamily sales surged in the fourth quarter. In transactions where pricing was available, the median price in the final quarter of 2021 was \$208,000 per unit. The median price for all sales in 2021 rose to approximately \$133,500 per unit, an increase of 36 percent compared to the median price in 2020.
- As the investment market has become more competitive, cap rates compressed. In transactions that occurred in the fourth quarter, the average cap rate was 3.8 percent, 140 basis points lower than the average cap rate in 2020.



The median price in 2021 was approximately \$133,500 per unit.

### Investment Trends



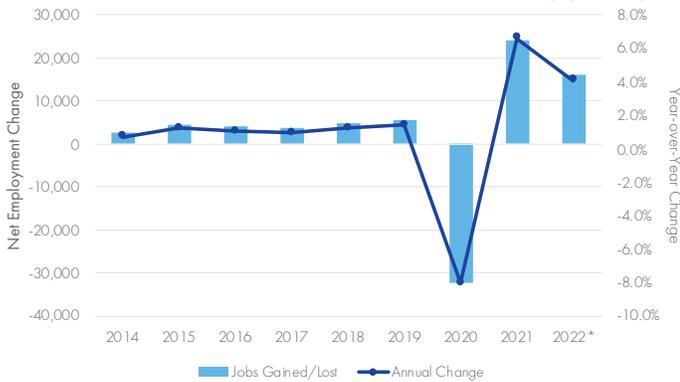
Sources: NorthMarq, CoStar

## Looking Ahead

After posting unprecedented rent growth and very low vacancies in 2021, there is a bright outlook for the Albuquerque multifamily market in the year ahead. A rebounding employment market is expected to continue to support demand, while there are a handful of new construction projects that are forecast to deliver over the next several quarters. Developers are expected to complete around 650 units in 2022. The completion of these new projects should help supply levels reach an equilibrium with demand. With demand growth and additions to inventory likely to closely track one another in the year ahead, the area vacancy rate is expected to remain near all-time lows.

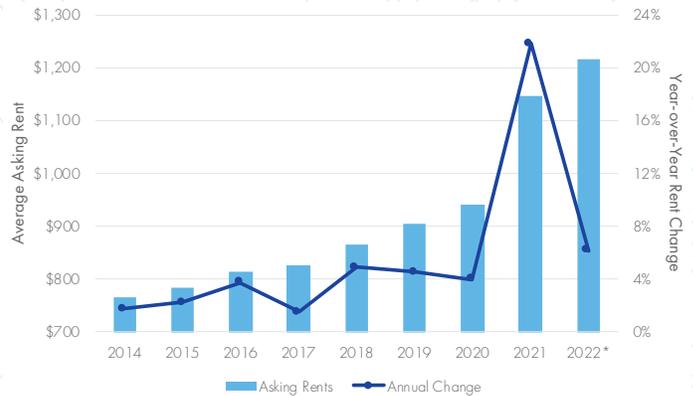
Multifamily investment activity has gained significant momentum in the past few years, and 2021 marked a cyclical high for sales velocity. The health of the investment market reflects the strong operating fundamentals. With conditions likely to remain strong in 2022, the investment market is expected to remain competitive. In 2021, per-unit prices pushed higher throughout the year. Further gains could be achieved in the coming year, as the rapid rent growth that was posted in 2021 was largely achieved in the second half of the year. Property financials in 2022 will look stronger than they did one year earlier, which should support higher valuations.

### Employment Forecast



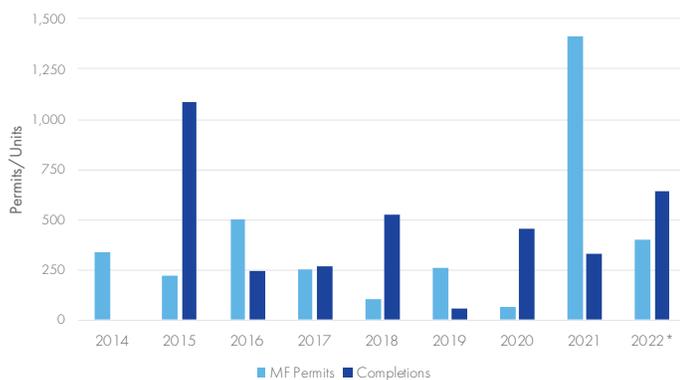
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### Rent Forecast



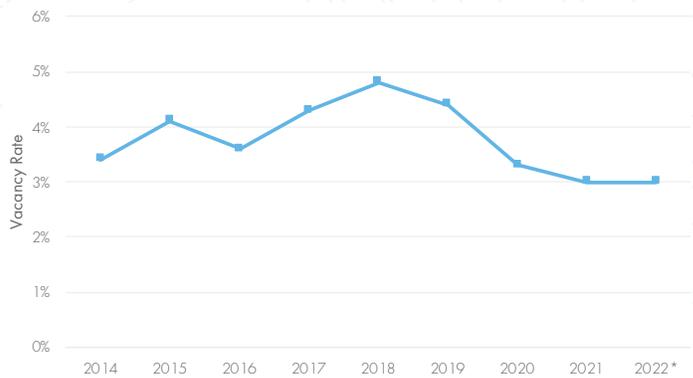
\* Year End Forecast  
Sources: Northmarq, Reis

### Construction & Permitting Forecast



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

### Vacancy Forecast



\* Year End Forecast  
Sources: Northmarq, Reis



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## About Northmarq

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.