

Investment activity picks up to start 2024

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **2,410**

UNITS DELIVERED (YTD) **734**

MARKET FUNDAMENTALS



VACANCY RATE **6.9%**

YEAR-OVER-YEAR CHANGE **+70bps**

ASKING RENTS **\$1,297**

YEAR-OVER-YEAR CHANGE **+2.1%**

TRANSACTION ACTIVITY (YTD)



MEDIAN SALES PRICE PER UNIT* **\$161,000**

* Transactions where pricing is available

HIGHLIGHTS

- New supply outpaced renter demand in Albuquerque during the first quarter, causing the vacancy rate to tick higher. Developers are active; there are more than 1,800 units either in lease-up or coming online in the market.
- Rents trended higher at the start of 2024. Asking rents ended the first quarter at \$1,297 per month, up 1.3 percent for the quarter and 2.1 percent higher than one year earlier.
- The vacancy rate inched higher by 10 basis points during the first quarter to 6.9 percent. This marked the third consecutive quarter where the rate pushed higher; year over year, vacancy is up 70 basis points.
- Transaction volume picked up at the start of 2024, bouncing off of earlier lows. In transactions where pricing was available, the median price to this point in 2024 is \$161,000 per unit, up 6 percent from one year ago.

ALBUQUERQUE MULTIFAMILY MARKET OVERVIEW

Multifamily property fundamentals in Albuquerque were mixed in the first quarter. After spikes in late 2023 and early 2024, market vacancies have slowly inched higher in recent quarters. Despite the rising vacancy levels, the local economy was strong enough to support steady rent growth. While gains across the area economy are supporting renter demand, developers are delivering projects at a higher rate. During the first quarter, more than 730 units came online, and deliveries in the past six months have outpaced the combined totals recorded from 2017 to 2022. This increase in new inventory is not expected to be a long-term shift in the market, as the pace of multifamily permitting and construction starts has slowed in recent periods.

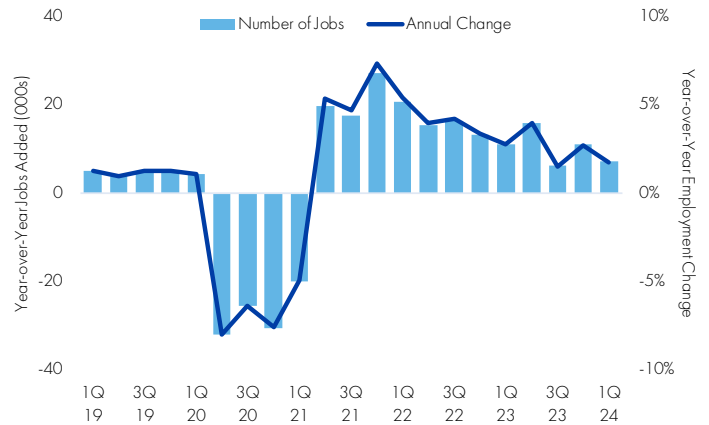
Despite transaction activity in the Albuquerque multifamily investment market picking up at the start of 2024, overall sales activity has been limited in recent quarters after peaking in 2022. Still, a few properties have traded to start the year, with Class B assets accounting for the majority of transactions. Last year, the transaction mix was a bit more varied, with an even distribution of Class B and Class C properties changing hands. With fewer older assets trading to this point in the year, pricing has gained momentum. In transactions where information was available, the median price in 2024 has reached \$161,000 per unit, up 6 percent from 2023. Cap rates averaged 6.5 percent in the last three months.

EMPLOYMENT

- Employment growth in Albuquerque slowed in recent months after recording gains in the closing months of 2023. Year over year, employers added 7,300 jobs, an increase of 1.8 percent.
- The professional and business services sector has consistently added new jobs in recent quarters, making it one of the strongest performers in the region. During the past 12 months, total professional employment has surged by 3.9 percent, with the hiring of 2,600 high-wage workers.
- Intel continues to make significant investments in the company’s New Mexico operations. The chip maker recently opened its Fab 9 facility in Rio Rancho which will manufacture advanced semiconductor technologies. The Fab 9 facility is a part of Intel’s \$3.5 billion investment to enhance the company’s New Mexico operations.
- **FORECAST:** Economic growth in Albuquerque is generally recorded at a steady pace. This year, employers are forecast to expand area payrolls by 1.4 percent, with the addition of 6,000 workers.

Year over year, employers added 7,300 jobs.

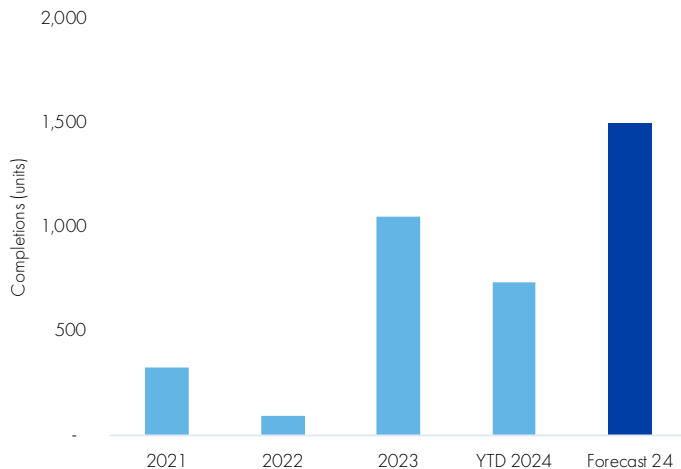
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Nearly 750 units were delivered during the first quarter.

DEVELOPMENT TRENDS



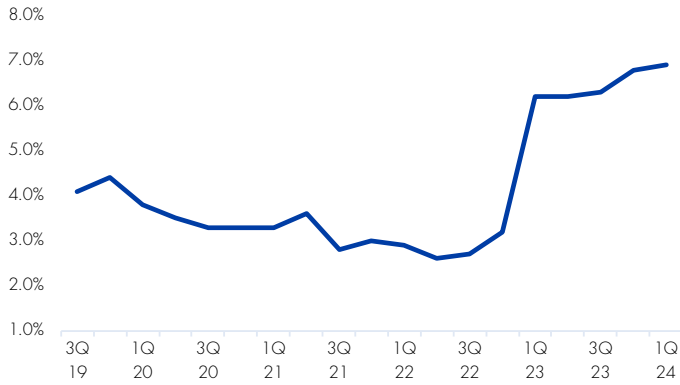
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Multifamily construction has been trending higher in recent periods following minimal supply growth from 2019 to 2022. Projects totaling nearly 750 units were delivered during the first quarter, after more than 1,000 units came online in 2023.
- Approximately 2,400 units are currently under construction, after more than 3,700 units were under way one year ago. Still, projects totaling 1,883 units are currently in lease-up or coming online in the Albuquerque market, a significant figure for the region.
- Multifamily permitting slowed to start 2024. Developers pulled permits for roughly 220 units in the last three months, after permits for more than 400 units were issued in the preceding quarter.
- **FORECAST:** Projects are forecast to continue to come online in greater numbers than in recent years, with annual deliveries in 2024 expected to reach a cyclical high. Projects totaling roughly 1,500 units are set to be completed this year, up from an average of 450 units per year since 2015.

Vacancy inched higher to 6.9 percent.

VACANCY TRENDS



Sources: Northmarq, CoStar, Reis

VACANCY

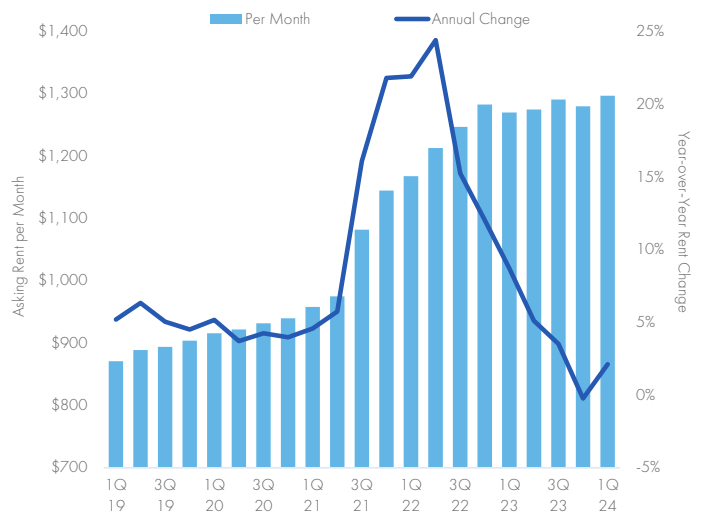
- Vacancy inched higher in the first quarter, rising 10 basis points to 6.9 percent. This marked the third consecutive quarter where the rate pushed higher.
- Year over year, vacancy in Albuquerque increased by 70 basis points. Vacancy conditions have pushed higher from tight levels recorded from 2020 to 2022. During that time, the vacancy rate hovered in the low-3 percent range. Over a more extended term, vacancies in Albuquerque have generally ranged between 3 percent and 4.5 percent.
- Vacancies are fairly consistent across property classes. The vacancy rate for Class A properties finished the first quarter at 6.7 percent, while the combined rate for Class B and Class C units is currently 7.1 percent.
- **FORECAST:** Vacancies are expected to level off in the coming quarters. The rate is forecast to end the year at 7.1 percent, 30 basis points higher than at the end of 2023.

RENTS

- Asking rents gained momentum during the first quarter, rising 1.3 percent to \$1,297 per month. Rents had inched lower at the end of 2023.
- Current apartment rents in Albuquerque are 2.1 percent higher than levels from one year ago. This follows annual rent gains that topped 20 percent in 2021 and surged more than 10 percent in 2022.
- Top-tier rentals have outperformed in recent quarters. Average Class A asking rents have risen 2.7 percent in the past year, reaching \$1,538 per month.
- **FORECAST:** Rent growth is forecast to continue through the remainder of the year. Asking rents are projected to finish 2024 at \$1,325 per month, up 3.5 percent for the full year.

Class A asking rents have risen 2.7 percent in the past year.

RENT TRENDS



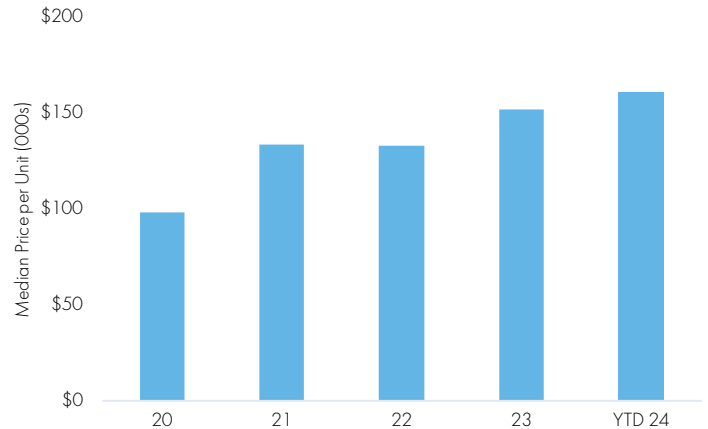
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Sales velocity in the Albuquerque multifamily market picked up at the start of 2024. Transaction volume during the first quarter was up 50 percent from low levels recorded during the same period of last year.
- In transactions where pricing was available, the median price thus far in 2024 is \$161,000 per unit, up 6 percent from last year. Middle-tier properties have made up the bulk of the transaction mix since the year started. Last year, properties across all asset classes sold, but Class B properties still accounted for half of all transactions in 2023.
- Cap rates continued to trend higher in the opening months of 2024, averaging around 6.5 percent during the first quarter. In the preceding quarter, cap rates averaged 6.25 percent.

The median price thus far in 2024 is \$161,000 per unit.

INVESTMENT TRENDS



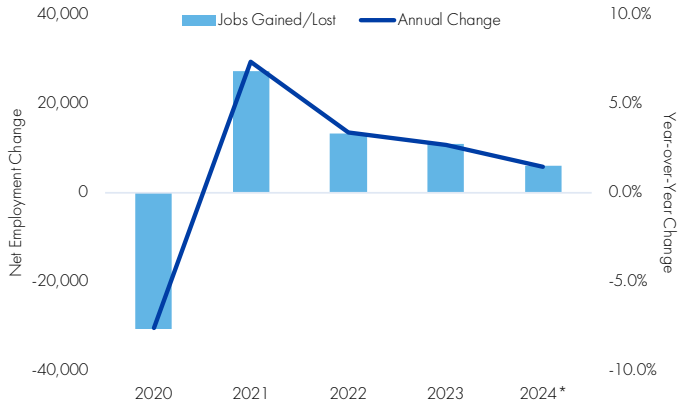
Sources: Northmarq, CoStar

LOOKING AHEAD

Supply growth in the Albuquerque multifamily market is expected to remain elevated through the rest of 2024, but the pace of multifamily deliveries should slow beginning in 2025. This pattern occurs with some regularity in Albuquerque, where deliveries have averaged about 400 units per year during the past decade, including some years where only one or two significant projects come online. In the near term, the vacancy rate should inch higher and will likely peak in the next few quarters. Over a more extended outlook, conditions should improve, with a capital investment among some of the region’s largest economic engines supporting demand growth. Rents are forecast to record above-average gains this year, and stronger growth could be achieved as supply-side pressures ease.

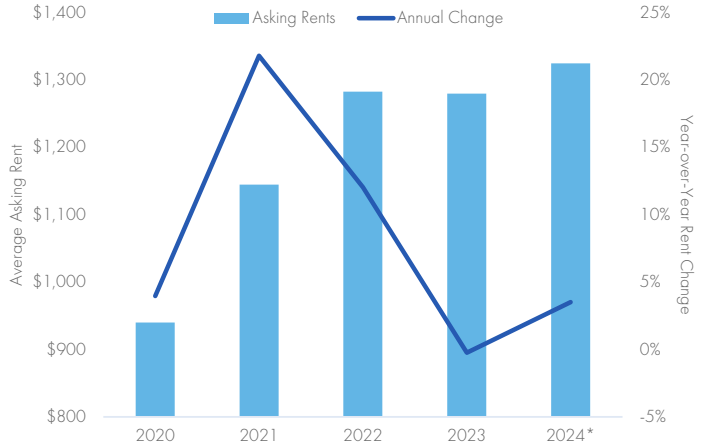
After a stronger start to the year, investment activity in Albuquerque will likely sustain a steady pace. This would result in total transactions in 2024 surpassing sales counts from 2023. Steady operating conditions should support the investment market in Albuquerque, particularly when compared to the volatility being recorded in higher-growth parts of the country. While Class B and Class C assets should continue to make up most sales, there may be an uptick in sales for top-tier properties in the coming years as new projects are delivered and leased-up. With financing costs likely to remain elevated throughout the remainder of this year, secondary markets such as Albuquerque where cap rates are generally a bit higher could attract greater investor interest.

EMPLOYMENT FORECAST



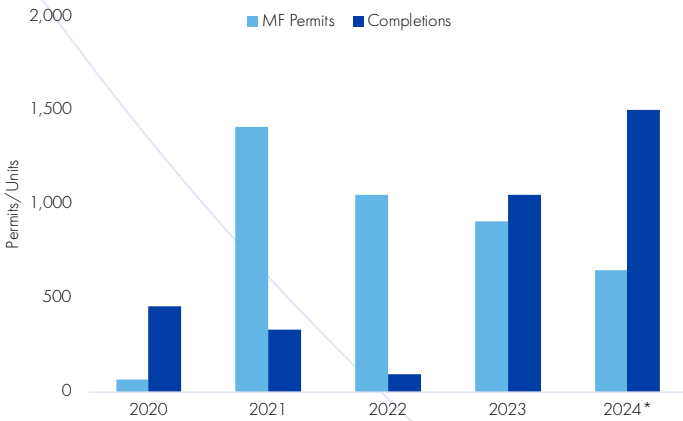
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



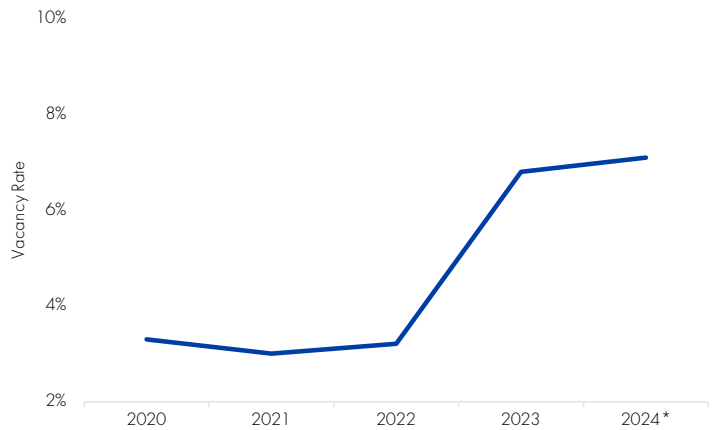
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, CoStar, Reis



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