

Construction active, but vacancies inch lower

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **2,676**

UNITS DELIVERED (YTD) **1,042**

MARKET FUNDAMENTALS



VACANCY RATE **6.5%**

YEAR-OVER-YEAR CHANGE **+30bps**

ASKING RENTS **\$1,307**

YEAR-OVER-YEAR CHANGE **+2.5%**

TRANSACTION ACTIVITY (YTD)



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

ALBUQUERQUE MULTIFAMILY
2Q 2024

HIGHLIGHTS

- Renter demand gained momentum in Albuquerque during the second quarter leading to vacancy improvements and continued rent gains. Supply growth has been strong to this point in 2024, with projects totaling more than 1,000 units being delivered in the first six months of the year.
- The vacancy rate improved for the first time in two years during the second quarter. Area vacancy declined by 40 basis points in the last three months to 6.5 percent. Year over year, vacancy is up 30 basis points.
- Asking rents continued to rise in recent months, building upon gains recorded during the first quarter. Apartment rents trended higher by 0.8 percent in the last three months to \$1,307 per month. During the past year, rents advanced 2.5 percent.
- Total sales through the first half of 2024 have more than doubled levels recorded in the same period of last year but are still lower than the market's long-term average transaction volumes. The median price to this point in 2024 is \$161,000 per unit, while cap rates have averaged 6.5 percent.

ALBUQUERQUE MULTIFAMILY MARKET OVERVIEW

Operating conditions in the Albuquerque multifamily market performed well during the second quarter, as the vacancy rate improved while rents inched higher. Supported by an increase in renter demand, vacancy declined for the first time in two years during the second quarter. Apartments recorded net move-ins for 170 units in the last three months, after slight levels from negative absorption in the preceding quarter. Improved renter demand and vacancy conditions led to rent growth during the second quarter, as asking rents topped \$1,300 per month for the first time. Annual rent gains are currently tracking the steadier average pace of growth recorded from 2010 to 2020, before a period of more volatile rent patterns of recent years.

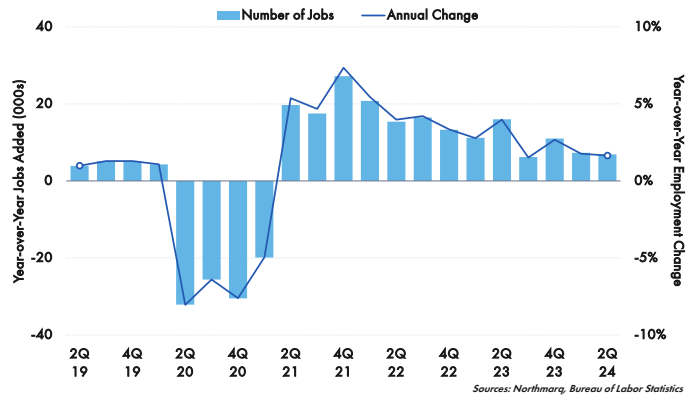
Transaction volume in the Albuquerque multifamily investment market has been limited to this point in the year. Although total sales through the first six months of 2024 have more than doubled the historically low levels recorded in the same period of last year, transaction volume to this point in the year is roughly half of the region's average since 2015. In the sales that have occurred to this point in 2024, 75 percent of these assets had been previously acquired during the past 5 years. Outside of a few newer assets, most properties that have changed hands thus far in 2024 are 1970s- or 1980s-vintage scattered throughout Albuquerque. These properties have also accounted for the majority of sales in the preceding five years. In transactions where pricing was available, the median price to this point in the year is \$161,000 per unit, 6 percent above levels from last year.

EMPLOYMENT

- The pace of job additions in Albuquerque during the past 12 months has returned closer to historical norms after posting elevated growth rates since 2021. Year over year, area employers added 6,900 workers, an increase of 1.7 percent.
- Employment growth in the manufacturing sector has been gaining momentum in recent quarters. During the past year, total manufacturing employment in the area has spiked by 6.6 percent, with the addition of 1,100 workers. In the preceding 12 months, annual growth in this sector averaged 2 percent.
- Two solar companies are planning to make major investments in New Mexico that will bring new jobs to the region. Maxeon Solar Technologies is expected to build facilities totaling \$1.9 billion in Southeast Albuquerque, a move that is expected to result in 1,800 jobs. Ebon Solar recently announced a \$942 million investment in a new manufacturing facility that is expected to employ 900 new workers.
- **FORECAST:** Employment growth is forecast to continue at a steady pace through the end of the year. Area employers are forecast to hire 6,000 new workers in 2024, an annual increase of 1.4 percent.

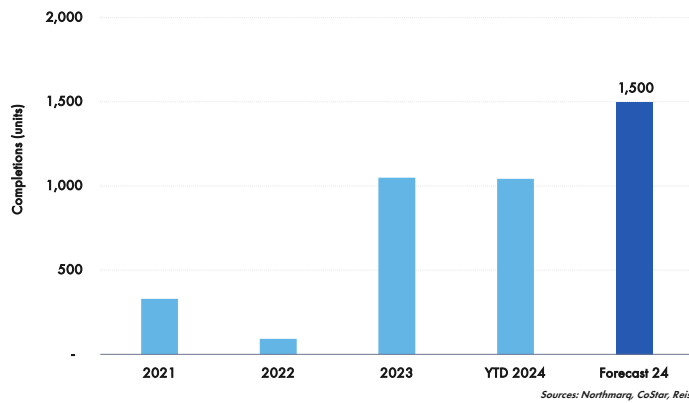
Year over year, area employers hired 6,900 workers.

EMPLOYMENT OVERVIEW



Projects totaling approximately 2,700 units are under construction.

DEVELOPMENT TRENDS

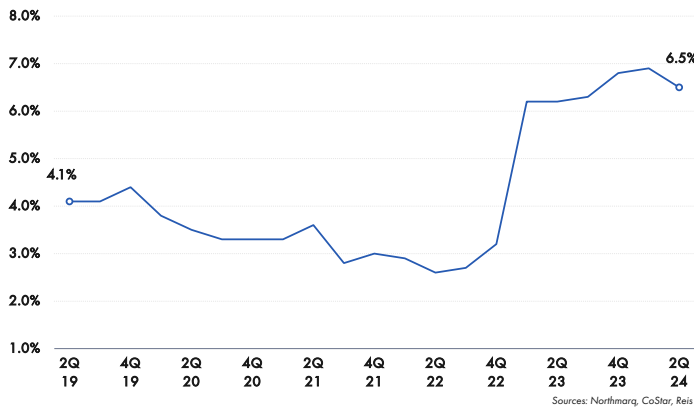


DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries slowed in recent months, but overall completions through the first half are elevated after a strong first quarter. Projects totaling more than 1,000 units have come online during the first six months of 2024, nearly identical to the full-year total deliveries in 2023.
- Projects totaling approximately 2,700 units are currently under construction throughout Albuquerque, down 30 percent from peak levels recorded one year ago. A handful of submarkets have significant projects under construction, including nearly 700 units in Westside/West Mesa, more than 400 units in Northeast Heights, and about 350 units in the North Valley.
- Multifamily permitting continued to slow in recent months. Developers pulled permits for fewer than 50 units during the second quarter, after pulling permits for approximately 220 units in the first three months of 2024. Multifamily permitting volumes in the first half were down nearly 50 percent from the same period in 2023.
- **FORECAST:** Multifamily completions are expected to continue through the end of 2024, with annual deliveries forecast to reach 1,500 units. Projects totaling more than 1,000 units came online last year, and annual deliveries have averaged roughly 400 units annually in the trailing five years.

Apartments recorded net move-ins for 170 units during the second quarter.

VACANCY TRENDS



VACANCY

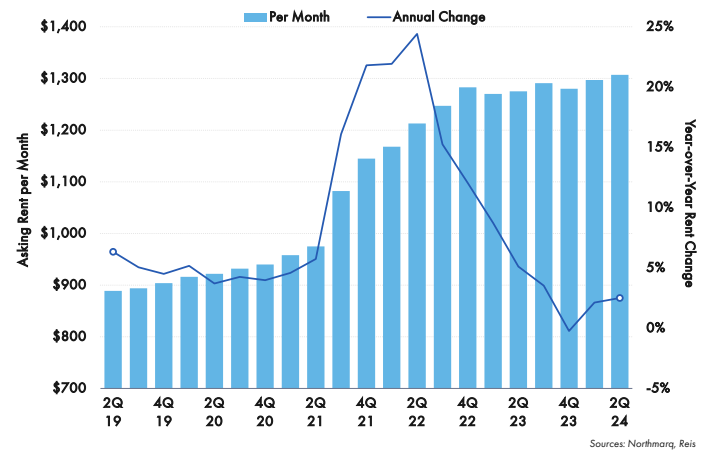
- The vacancy rate in Albuquerque improved in recent months after trending higher in the previous three quarters. Area vacancy declined by 40 basis points during the second quarter to 6.5 percent. Year over year, vacancy is up 30 basis points.
- Net absorption picked up in recent months, rebounding from negative levels recorded in the previous period. Apartments recorded net move-ins for 170 units during the second quarter, tripling levels from the same period in 2023.
- Vacancy conditions for Class A properties improved during the past year. During the past 12 months, the vacancy rate for top-tier assets declined by 40 basis points to 6.2 percent.
- **FORECAST** A steady stream of new units is expected to cause the vacancy rate to creep higher in the second half of this year. The rate is forecast to end 2024 at 6.7 percent, 20 basis points higher than the current figure, but slightly lower than the year-end 2023 average.

RENTS

- Apartment rents in Albuquerque continued to trend higher in recent months. Area rents advanced 0.8 percent during the second quarter, reaching \$1,307 per month.
- Year over year, area rents are up 2.5 percent, similar to the region’s long-term trend. Before rent growth spiked in 2021, rents rose by an average of 2.6 percent per year from 2010 to 2020.
- Rent trends were mixed across asset classes. Class A rents rose during the past 12 months while combined rents for Class B and Class C properties ticked lower. Top-tier rents are currently \$1,535 per month, while combined asking rents for middle-tier and lower-tier assets are \$1,061 per month.
- **FORECAST:** Rent growth is forecast to continue through the second half of 2024. Area rents are expected to finish 2024 at \$1,310 per month, up 2.3 percent for the full year.

Year over year, area rents are up 2.5 percent.

RENTS TRENDS

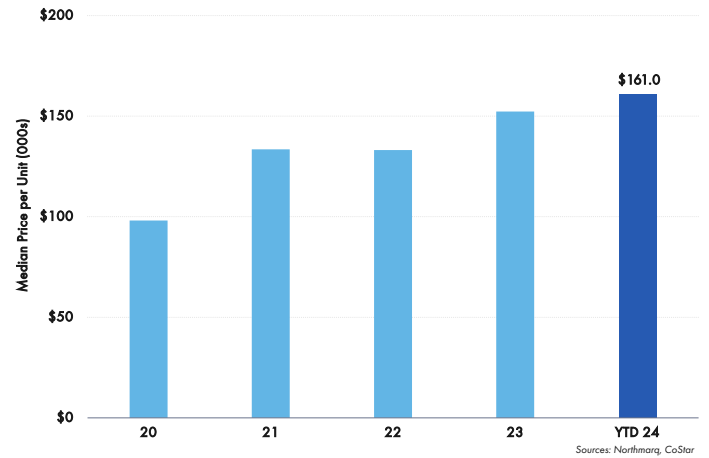


MULTIFAMILY SALES

- Transaction activity in Albuquerque has been light but fairly steady through the first two quarters of this year. Sales velocity in the second quarter was nearly identical to levels from the first three months of the year.
- The pace of multifamily property sales in the first half of 2024 more than doubled the total from the historically low volumes in the first half of last year. Still, transaction volumes to this point in 2024 are down roughly 50 percent from average first-half totals recorded since 2015.
- In transactions where pricing was available, the median price through the first half of the year was \$161,000 per unit, up 6 percent from last year’s figure. Class B assets have accounted for roughly 60 percent of all sales to this point in the year, similar to the share of deals for Class B properties in 2023.
- Cap rates leveled off in recent months after trending higher since the beginning of 2022. Cap rates averaged roughly 6.5 percent during the second quarter, closely tracking levels recorded in the first three months of the year.

The median price through the first half was \$161,000 per unit.

INVESTMENT TRENDS

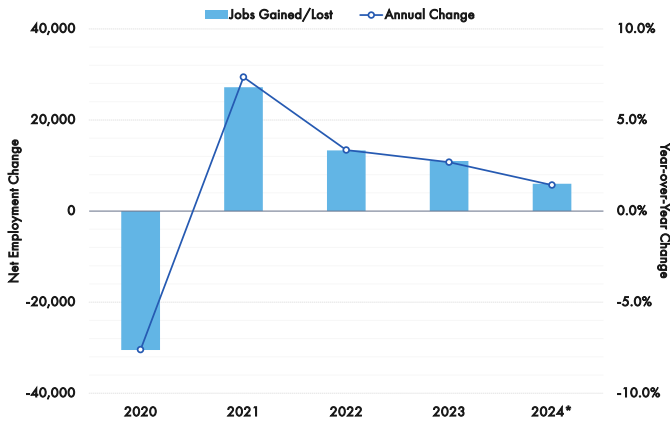


LOOKING AHEAD

This year will mark a second consecutive year of heightened multifamily inventory growth in Albuquerque, following a stretch from 2019-2022 where only a handful of properties came online. Multifamily deliveries are forecast to total approximately 1,500 units this year, after more than 1,000 units were delivered in 2023. With about 2,600 units currently under construction, next year will likely mark the conclusion of the region’s recent construction surge. In the near term, these supply-side pressures will likely result in a modest vacancy increase in the second half of this year and through 2025 before conditions stabilize. This follows an extended period of extremely tight conditions, highlighted by a local vacancy that remained below 4 percent for 12 consecutive quarters, and remained below 3 percent for nearly one full year.

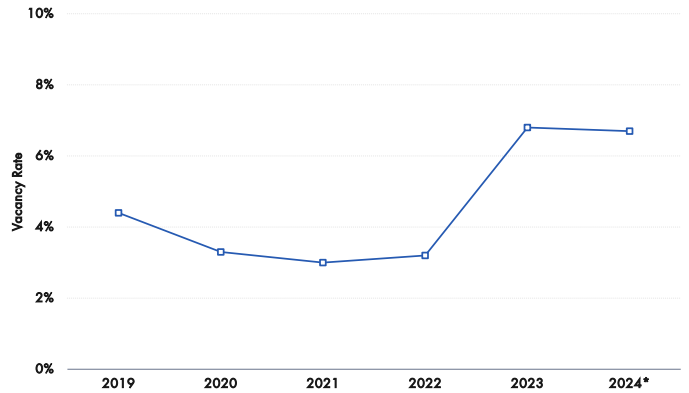
Investment conditions in Albuquerque have been fairly cool to this point in 2024, although the number of sales of multifamily properties is ahead of the pace recorded in 2023. Investors will likely continue to monitor the competitive impact of new supply on existing operations, particularly since the Albuquerque region recently recorded a period of a few consecutive years of limited deliveries. As projects successfully lease-up, there is the potential for some momentum to build in the coming quarters. Declines in interest rates should also make it easier for acquisitions to pencil. Cap rates appear to have settled into an acceptable range for buyers and sellers, but an extended period of declining borrowing costs could result in some modest cap rate compression. A return to cap rate levels achieved a few years ago is not expected.

EMPLOYMENT FORECAST



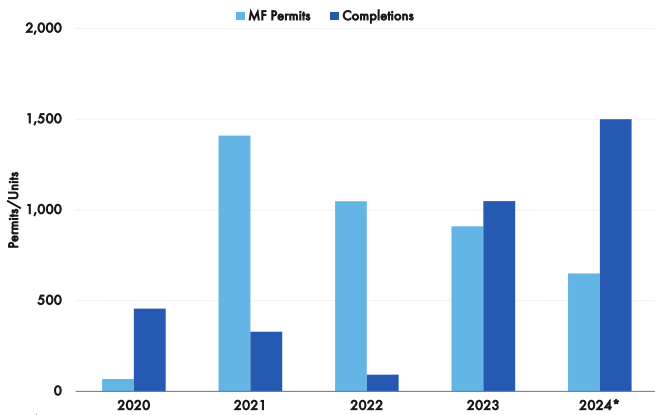
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

VACANCY FORECAST



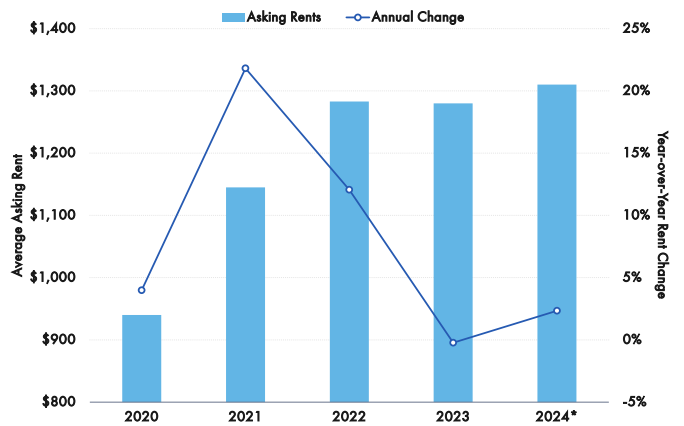
* Year End Forecast
Sources: Northmarq, CoStar, Reis

CONSTRUCTION & PERMITTING FORECAST



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

RENTS FORECAST



* Year End Forecast
Sources: Northmarq, Reis



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