



MULTIFAMILY REPORT

Albuquerque Sticking It Out

Fall 2020



Unemployment Rate Climbs

Deliveries Slow Significantly

Investment Activity Dampened

ALBUQUERQUE MULTIFAMILY



Steady Demand Affords Rents Some Stability

The Albuquerque multifamily market was somewhat enduring during the third quarter of 2020. Amid elevated demand and limited inventory growth, the impact of the pandemic was less severe than the effect on coastal or tourism-heavy metros. As a result, rent performance remained positive, with rates up 0.6% to an overall average of \$957, on a trailing three-month basis through September.

For the first time since October 2012, job growth recorded negative levels in April, and further declined in the following months. According to preliminary Bureau of Labor Statistics data, the unemployment rate remained in the double digits in August, at 11.2%. Leisure and hospitality was hit hardest, but all sectors saw significant losses year-over-year through July. Several local and state initiatives were rolled out to help businesses in need. The Small Business Recovery Act of 2020 allocated \$400 million from the New Mexico State Severance Tax Fund to provide loans to businesses and nonprofits that have experienced financial hardship due to the health crisis.

Investment activity slowed considerably in 2020, totaling only \$62 million in the first three quarters. This followed two consecutive years of transaction volume over \$430 million. Deliveries also softened significantly, with only a 54-unit property coming online this year. Considering the pandemic's impact and the limited inventory, we expect rents to remain positive in 2020.

Market Analysis | Fall 2020

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Recent Albuquerque Transactions

SkyStone



City: Albuquerque, N.M.
Buyer: Kennedy Wilson
Purchase Price: \$44 MM
Price per Unit: \$174,997

Broadstone Heights



City: Albuquerque, N.M.
Buyer: Millburn & Co.
Purchase Price: \$40 MM
Price per Unit: \$185,185

Sage Canyon



City: Albuquerque, N.M.
Buyer: Engel Realty
Purchase Price: \$10 MM
Price per Unit: \$97,714

Casa Bella

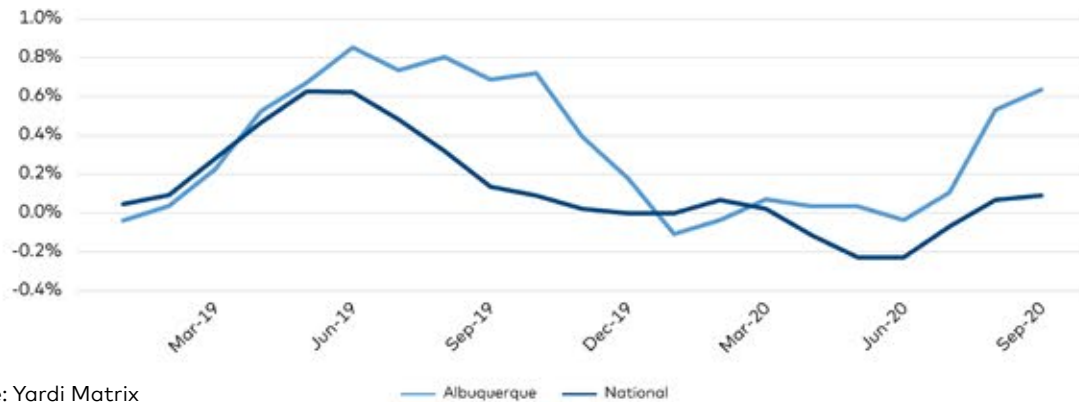


City: Albuquerque, N.M.
Buyer: Greenwater Investments
Purchase Price: \$7 MM
Price per Unit: \$45,175

RENT TRENDS

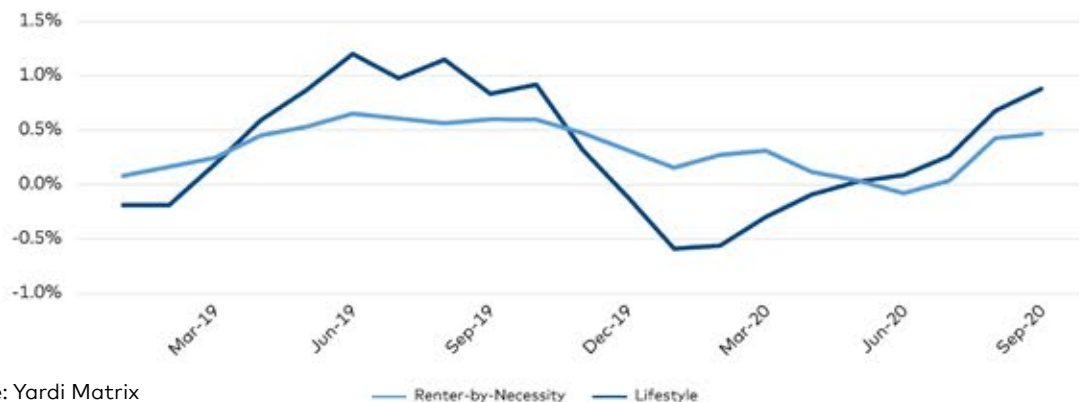
- ▶ Rent expansion in Albuquerque has remained flat or positive throughout the health crisis. On a trailing three-month basis through September, rents rose 0.6% to 50 basis points above the national rate. Limited supply favored rent hikes, as demand lingered. The average rent was \$957, significantly below the \$1,463 U.S. figure.
- ▶ Working-class Renter-by-Necessity rates improved by 0.5% to \$866, but rents in the Lifestyle segment led growth, with rates up by 0.9% to \$1,154, partly due to the lack of inventory at the high end of the quality spectrum.
- ▶ Despite constant rent increases in the upscale segment, Albuquerque remains much more affordable than other Western metros such as Denver (\$1,554) and Phoenix (\$1,227).
- ▶ To reduce the economic fallout from the crisis, the state's Community Development Council announced in August that more than \$13.3 million of the coronavirus relief package would go toward low- and moderate-income New Mexicans who need immediate housing assistance. The funds will cover up to three months of rent, mortgage or past-due utility payments for qualified applicants.
- ▶ South (\$1,605) and Santa Fe (\$1,221) were the most expensive submarkets in the metro, despite recording rent contractions of 0.4% and 1.8%, respectively, in the 12 months ending in September.

Albuquerque vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Albuquerque Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ The health crisis has noticeably impacted Albuquerque's economy, with unemployment still in the double digits—11.2% as of August, according to preliminary BLS data. After starting the year at 4.6%, the metro's jobless rate rose to 12.3% in April—during the statewide shelter-in-place orders—and recorded another uptick in July, climbing to 13.1%.
- ▶ All employment sectors saw losses in the 12 months ending in July. In line with the national trend, leisure and hospitality led the most jobs—14,200. Although Albuquerque's significant public sector generally stabilizes local employment trends, the sector contracted by 10.1%.

Between mid-March and early September, the New Mexico Department of Workforce Solutions paid more than \$2 billion in unemployment benefits, which led to the depletion of its accounts. As a result, authorities were forced to borrow cash from the federal government to pay continued unemployment claims.

- ▶ The city's economic development department provided working capital grants of up to \$5,000 to qualifying small businesses. Although New Mexico started to gradually reopen its economy in May and employers have started letting workers return to offices, it will likely take until the end of 2021 for the economy to bounce back.

Albuquerque Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	28	6.6%
55	Financial Activities	21	4.9%
50	Information	6	1.4%
65	Education and Health Services	74	17.3%
30	Manufacturing	16	3.7%
80	Other Services	14	3.3%
40	Trade, Transportation and Utilities	70	16.4%
60	Professional and Business Services	67	15.7%
90	Government	86	20.1%
70	Leisure and Hospitality	44	10.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Albuquerque gained 2,091 residents in 2019, for a 0.2% uptick, 10 basis points below the national average.
- ▶ Growth trends have been modest in the last decade, with the metro's population expanding by only 3.2% to roughly half the U.S. rate.

Albuquerque vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Albuquerque Metro	909,833	912,897	915,927	918,018

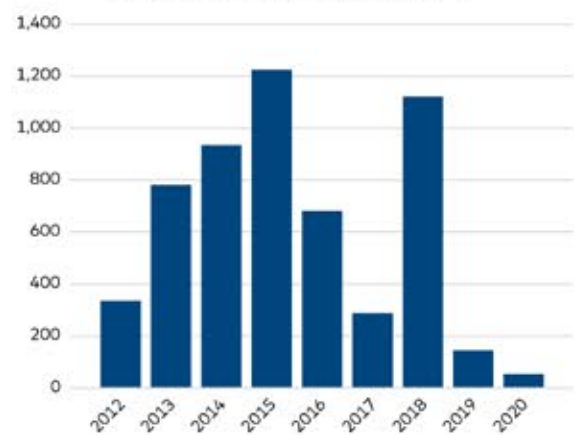
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Albuquerque had 1,562 units under construction as of September, with roughly two-thirds of projects in Lifestyle developments. Another 5,800 units were in the planning and permitting stages, but considering the implications of the health crisis, many of the metro's projects are likely to be delayed.
- ▶ Developers completed only a 54-unit property this year through the end of the third quarter, accounting for 0.1% of the total stock and 150 basis points below the U.S. rate. After peaking at 1,224 units in 2015, rental deliveries fluctuated across the metro, with a total of just 2,238 units coming online between 2016 and 2019. Limited inventory of available units has pushed the occupancy rate in stabilized properties to 95.8% as of August, 120 basis points higher than the national average.
- ▶ Santa Fe led development activity with 663 units underway, or 42% of the construction pipeline. Developers were also active in urban core areas such as South Valley, Academy and University. These three submarkets had a total of 829 units under construction.

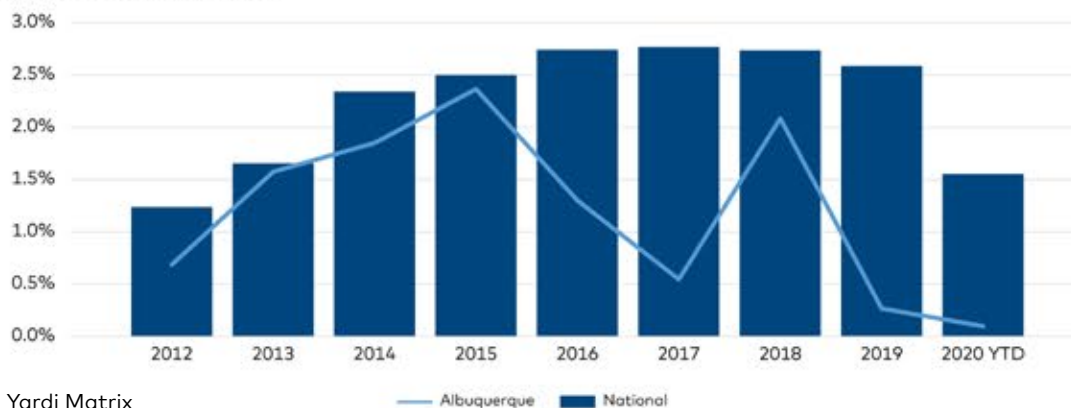
- ▶ The only 50-plus unit property that was delivered this year was Gorman & Co.'s Generations at West Mesa in the metro's South Valley submarket. The community is a Section 8 affordable housing property, dedicated to residents age 55 and over.

Albuquerque Completions (as of September 2020)



Source: Yardi Matrix

Albuquerque vs. National Completions as a Percentage of Total Stock (as of September 2020)



Source: Yardi Matrix

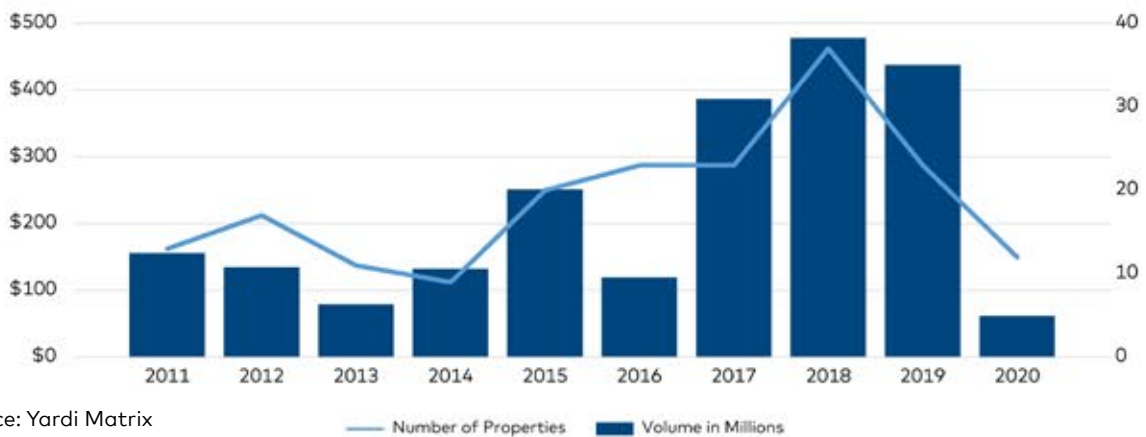
TRANSACTIONS

- ▶ Investment activity in the metro slowed considerably in 2020. A total of \$62 million in multifamily assets changed hands in Albuquerque in the first three quarters of the year. That represented only 20% of last year's volume during the same period, when sales totaled \$317 million. The slowdown in investment activity can be largely attributed to the economic volatility that followed the health crisis.
- ▶ With three-quarters of the properties that traded this year through September in the

Renter-by-Necessity segment, the average price per unit—\$116,185—remained well below the \$163,150 U.S. figure.

- ▶ Considering the metro was among the slowest in the country to recover from the last economic downturn, the significant disruption in multifamily investment trends caused by the coronavirus-induced lockdown is expected to see further ripple effects in Albuquerque.

Albuquerque Sales Volume and Number of Properties Sold (as of September 2020)



Source: Yardi Matrix

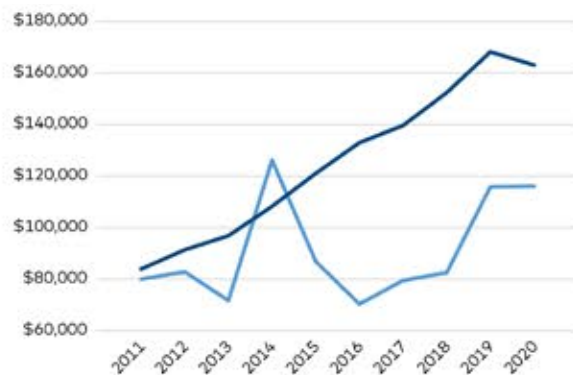
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Paradise Hills	44
Southeast	43
Academy	41
Northeast	40
North Valley	10
Chelwood Park	5

Source: Yardi Matrix

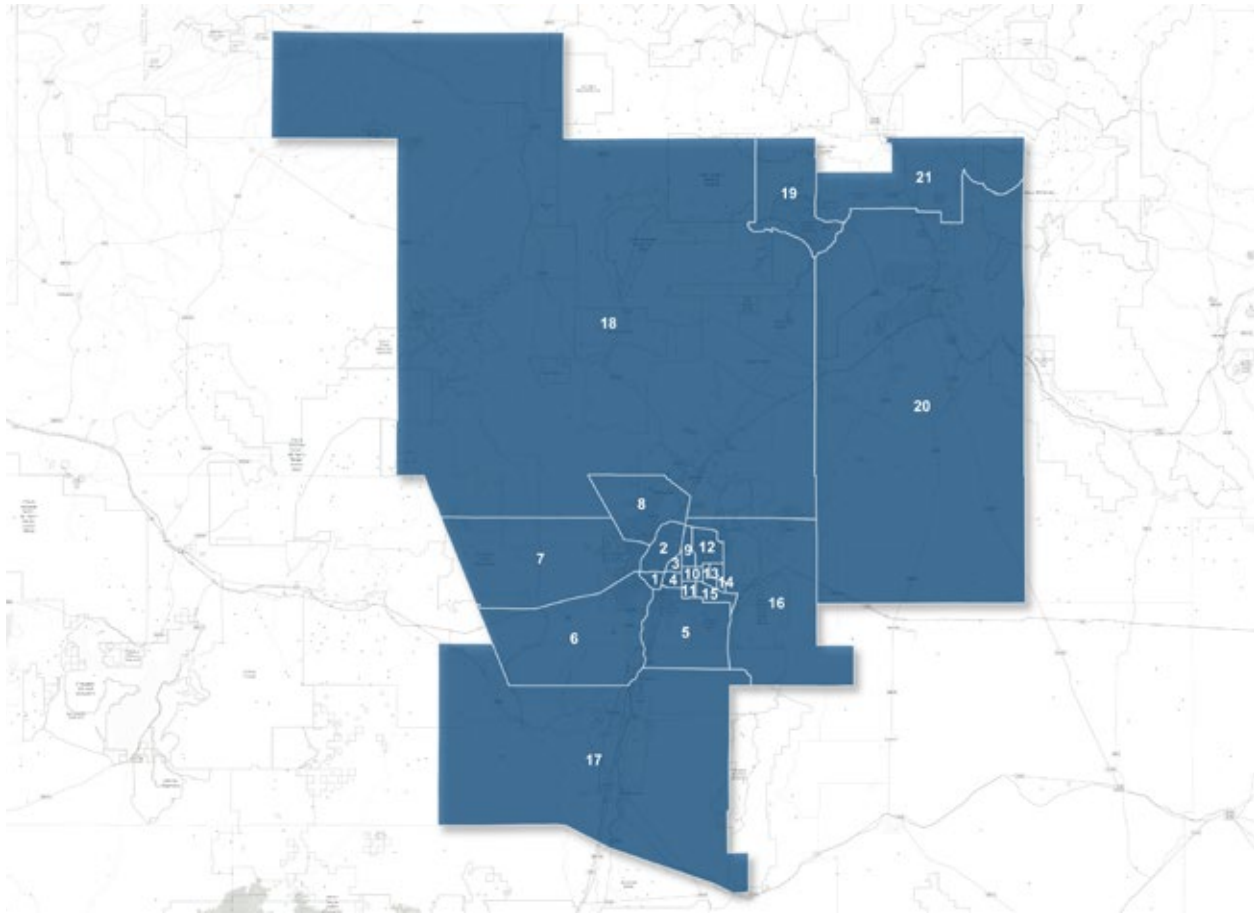
¹ From October 2019 to September 2020

Albuquerque vs. National Sales Price per Unit



Source: Yardi Matrix

ALBUQUERQUE SUBMARKETS



Area No.	Submarket
1	Albuquerque-Central
2	Albuquerque-North Valley
3	Albuquerque-Montgomery
4	Albuquerque-University
5	Albuquerque-South
6	Albuquerque-South Valley
7	Albuquerque-Westside
8	Albuquerque-Paradise Hills
9	Albuquerque-Academy
10	Albuquerque-Uptown
11	Albuquerque-International District

Area No.	Submarket
12	Albuquerque-Northeast
13	Albuquerque-La Cuesta
14	Albuquerque-Chelwood Park
15	Albuquerque-Southeast
16	Bernalillo County-East
17	Valencia County
18	Sandoval County
19	Los Alamos
20	Santa Fe
21	Espanola

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;*
- *Students, who also September span a range of income capability, extending from affluent to barely getting by;*
- *Lower-middle-income ("gray-collar") households, composed of office workers, policemen, firemen, technical workers, teachers, etc.;*
- *Blue-collar households, which September barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;*
- *Subsidized households, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, September extend to middle-income households in some high-cost markets, such as New York City;*
- *Military households, subject to frequency of relocation.*

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

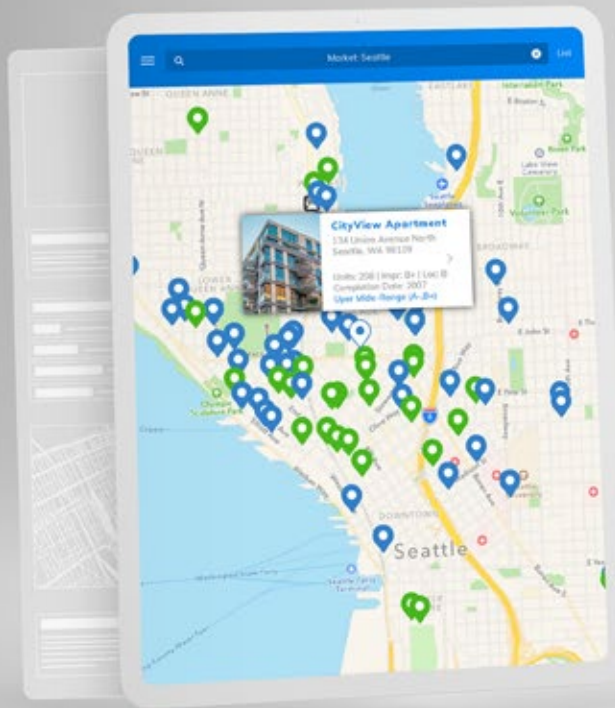
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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