



MULTIFAMILY REPORT

Duke City's Hot Air Balloon Ride

Spring 2021

Development Remains Tepid

Transaction Activity Sluggish

Limited Inventory Aids Rent Performance

ALBUQUERQUE MULTIFAMILY



Rent Growth Softens, Still Above Nation

Albuquerque multifamily rebounded in the second part of 2020, aided by steady demand and limited supply growth. A softening trend marked the beginning of 2021, with rents rising 0.3% on a trailing three-month basis through February to \$994, still 20 basis points above the national level. Meanwhile, the occupancy rate in stabilized properties underpinned steady demand, rising 150 basis points to 96.3% in the 12 months ending in January.

Unemployment slid to 6.4% in November, following two spikes in job losses. Still, January preliminary data pointed to a further hike to 8.6%. Employment contracted 4.8% in 2020, outperforming the U.S. rate by 200 basis points. Three sectors saw gains last year, led by the metro's largest—the public sector—which added 4,500 positions. The metro's economic development department made \$10 million in grants available to small businesses in late October. On the heels of more recent federal aid, another promising sign came from Netflix, which announced a proposed expansion estimated to generate some 1,000 jobs over the next decade.

Following 509 units completed in 2020, the metro had 188 units delivered in the first two months of the year and an additional 1,412 units underway. Investment activity nearly halved in 2020—amounting to \$254 million—for a price per unit that rose 11.2% to \$128,840.

Market Analysis | Spring 2021

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Recent Albuquerque Transactions

Rio Volcan



City: Albuquerque, N.M.
Buyer: Lakeside Capital Advisors
Purchase Price: \$25 MM
Price per Unit: \$104,089

Vista Linda

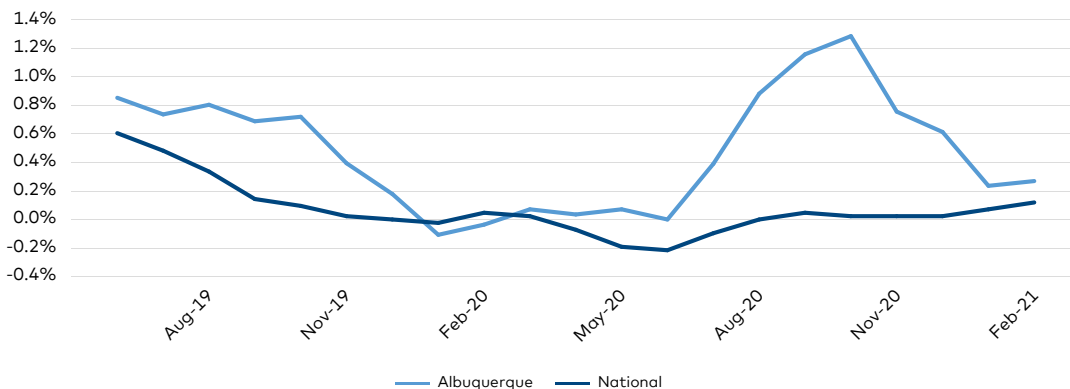


City: Santa Fe, N.M.
Buyer: Peak Capital Partners
Purchase Price: \$20 MM
Price per Unit: \$185,933

RENT TRENDS

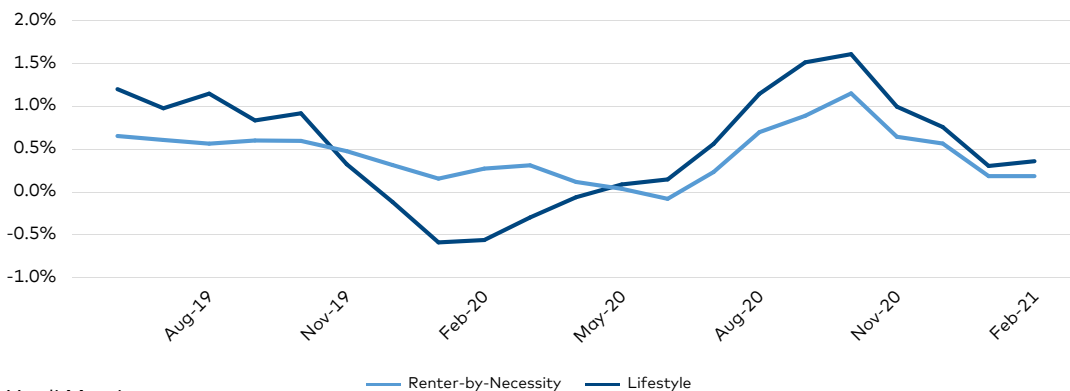
- ▶ Albuquerque rents rose 0.3% on a trailing three-month (T3) basis through February to \$994, heavily trailing the \$1,399 U.S. average. The upscale Lifestyle segment led expansion, with rates up by 0.4% to \$1,209 on a T3 basis through February. Renter-by-Necessity prices rose 0.2% to \$894 during the period.
- ▶ Year-over-year, the average Albuquerque rent was up 6.1%, behind only a handful of other relatively affordable and supply-constrained metros, including the Inland Empire (7.6%), Central Valley (7.5%), Tucson (7.3%), the North Carolina Triad (7.0%) and Sacramento (6.4%). For comparison, the average U.S. rate was down 10 basis points during the same time.
- ▶ Rent growth has remained positive since the onset of the COVID-19 pandemic, aided by limited inventory. This trend was mirrored by the occupancy rate in stabilized properties, which shot up from 94.8% in January 2020 to 96.3% one year later. The end of 2020's third quarter and beginning of the fourth posted an especially remarkable performance, when average rates recorded hikes above the 1.0% threshold on a T3 basis.
- ▶ The average rent contracted across only two submarkets in the 12 months ending in February: University (-0.5% to \$973) and Santa Fe (-0.1% to \$1,246). The latter is also one of the metro's most expensive areas and has the strongest construction pipeline.

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

- ▶ Unemployment in Albuquerque rebounded to 6.4% in November 2020, posting a steady performance following two spikes in job losses—one in April (12.3%) and the second in July (13.1%). January 2021 preliminary data pointed to a new uptick, to 8.6%, BLS data shows.
- ▶ Albuquerque employment dropped by 4.8% in 2020, a significant recovery from the 7.6% contraction registered as of September 2020.
- ▶ Three sectors gained jobs in 2020, led by the metro's largest—the public sector—which expanded 4.6% (4,500 jobs) to 23.1% of the total workforce. Mining, logging and construction and professional and business services increased by 1.1% and 0.1%, respectively. Leisure and hospitality lost the most jobs by far—15,300—followed by manufacturing (-2,800).
- ▶ The metro's economic development department made \$10 million in grants available to small businesses in late October 2020. Not long after, the \$900 billion December federal rescue package and the recent \$1.9 trillion relief bill started to support the economy as the vaccine rollout accelerated. Going into the second quarter, New Mexico led the nation with the largest share of its population (38%) at least partially vaccinated.

Albuquerque Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
90	Government	103	23.1%
15	Mining, Logging and Construction	29	6.5%
60	Professional and Business Services	69	15.5%
50	Information	6	1.3%
40	Trade, Transportation and Utilities	74	16.6%
80	Other Services	14	3.1%
55	Financial Activities	21	4.7%
30	Manufacturing	15	3.4%
65	Education and Health Services	76	17.0%
70	Leisure and Hospitality	39	8.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Albuquerque added 2,091 residents in 2019, for a 0.2% uptick, trailing the 0.3% national expansion rate.
- ▶ Between 2016 and 2019, the metro's population increased 0.9%, below the 1.6% national 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

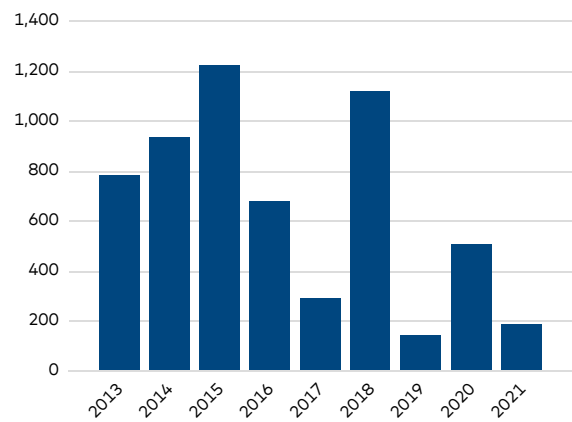
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ Albuquerque had 1,412 units in 11 properties under construction as of February, of which four are fully affordable projects and seven are Lifestyle properties. Another 6,583 units were in the planning and permitting stages. More than 1,000 units were initially slated for completion by the end of 2021. However, one year into the pandemic, continued construction delays are expected, caused by surging material prices, supply chain issues and on-site social distancing measures.
- ▶ Despite COVID-19 limitations, developers brought online 509 units last year, or 0.9% of total stock, well below the 2.2% national average. Even so, last year's volume surpassed that of 2019 (149 units) and 2016 (289 units). During the first two months of 2021, 188 units were delivered in one Lifestyle community. This represented 0.3% of total stock, on par with the national average.
- ▶ Santa Fe continued to lead development activity with 773 units under construction, or nearly 55% of the construction pipeline. Other areas targeted by developers were South Valley, University and Academy, which had 569 units underway combined.

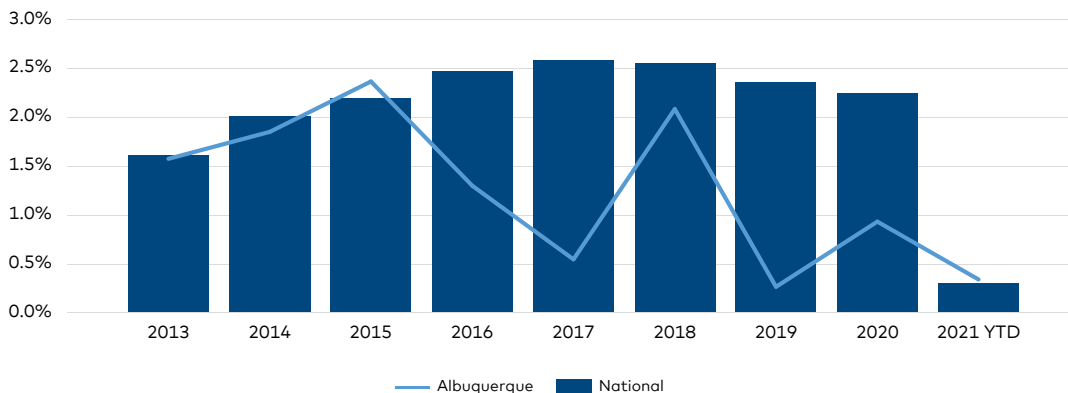
- ▶ The only project of more than 50 units completed in the first two months of 2021 is Broadstone Rodeo, a 188-unit property located in Santa Fe. The owner—local developer Titan Development—built the project with aid from a \$21 million construction loan originated by BOK Financial.

Albuquerque Completions (as of February 2021)



Source: Yardi Matrix

Albuquerque vs. National Completions as a Percentage of Total Stock (as of February 2021)

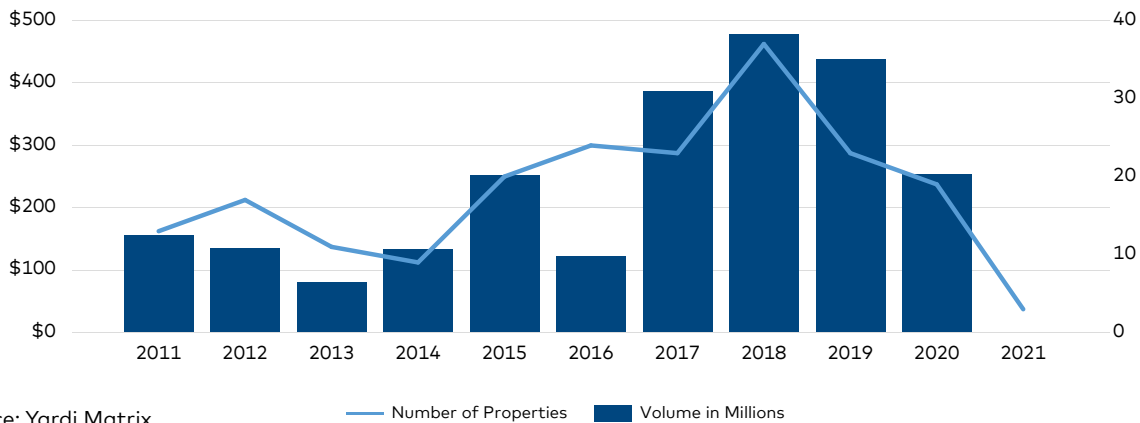


Source: Yardi Matrix

TRANSACTIONS

- ▶ Some \$254 million in multifamily assets traded in Albuquerque in 2020, totaling just 58% of the volume registered in 2019. The pandemic made investors cautious, especially during the third quarter, when only two deals were signed for a total of \$16 million.
- ▶ The period preceding the health crisis marked the best two years of the decade for multifamily transactions: \$478 million in 2018 and \$438 million in 2019.
- ▶ Nearly three-quarters of the assets that changed hands in 2020 were Renter-by-Necessity properties. Even so, the average price per unit rose 11.2% to \$128,840. Meanwhile, nationally, the per-unit price appreciated just 1.7%, to \$156,953.
- ▶ In the 12 months ending in February, transaction activity was most intense in the Northeast submarket, where sales amounted to \$107 million.

Albuquerque Sales Volume and Number of Properties Sold (as of February 2021)



Source: Yardi Matrix

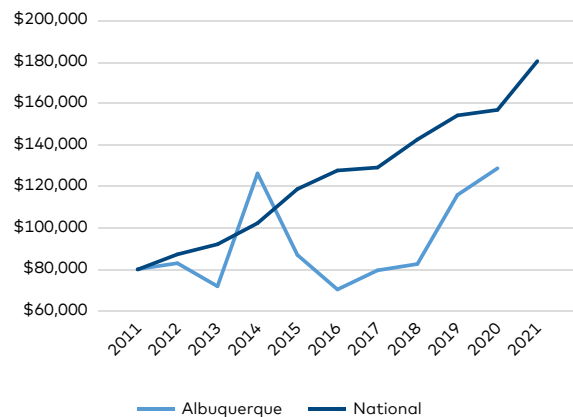
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Albuquerque - Northeast	107
Albuquerque - Paradise Hills	55
Santa Fe	37
Albuquerque - Westside	25
Albuquerque - Montgomery	9
Albuquerque - Southeast	7

Source: Yardi Matrix

¹ From March 2020 to February 2021

Albuquerque vs. National Sales Price per Unit



Source: Yardi Matrix

Top 5 Western Markets for Multifamily Transactions

By Jeff Hamann

Multifamily investment stayed moderate into the new year. According to Yardi Matrix data, in the first two months of 2021, transaction volume nationwide hit \$16.9 billion. While still a far cry from the \$38.6 billion in deals closed in the fourth quarter of last year, investors are continuing to seek out deals even amid ongoing economic uncertainty.

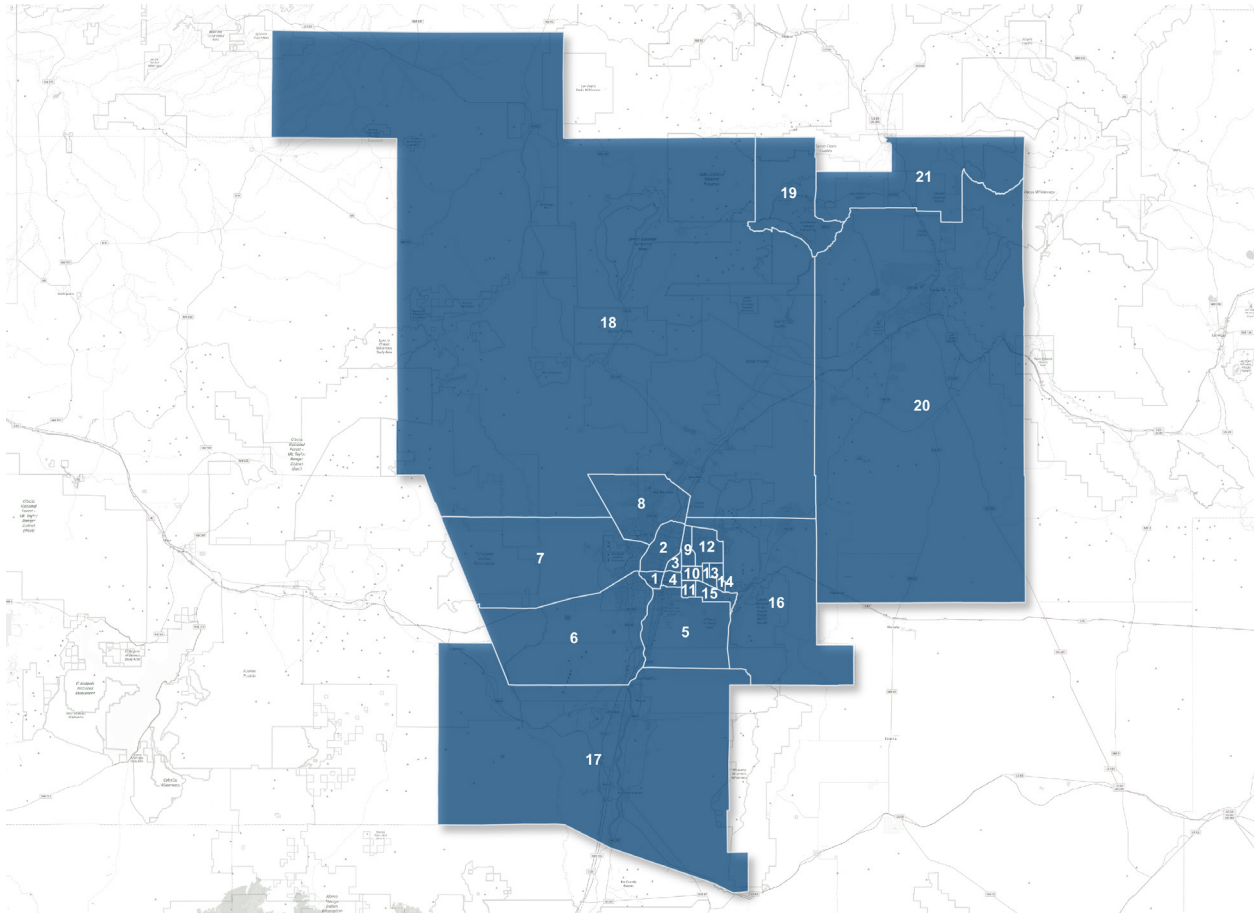
Rank	Market	Units	Transaction Volume (\$MM)	Price Per Unit
1	Phoenix	6,433	\$1,436.07	\$223,235
2	Denver	1,861	\$517.10	\$277,859
3	Tucson, Ariz.	1,045	\$131.95	\$126,268
4	Las Vegas	636	\$77.65	\$122,091
5	Albuquerque, N.M.	855	\$53.85	\$62,986

Albuquerque

Nearly \$54 million in multifamily properties transacted in Albuquerque, N.M., in the first two months of 2021, well above the \$15.1 million in deals closed in January and February of 2020. Albuquerque has performed well over the past year, with rent growth at 6.1 percent year-over-year through February, higher than in most U.S. markets. So far, the market's four transactions this year include 855 units, and the overwhelming majority of apartments—92 percent—were listed as affordable.



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 December 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 December 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, December 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.

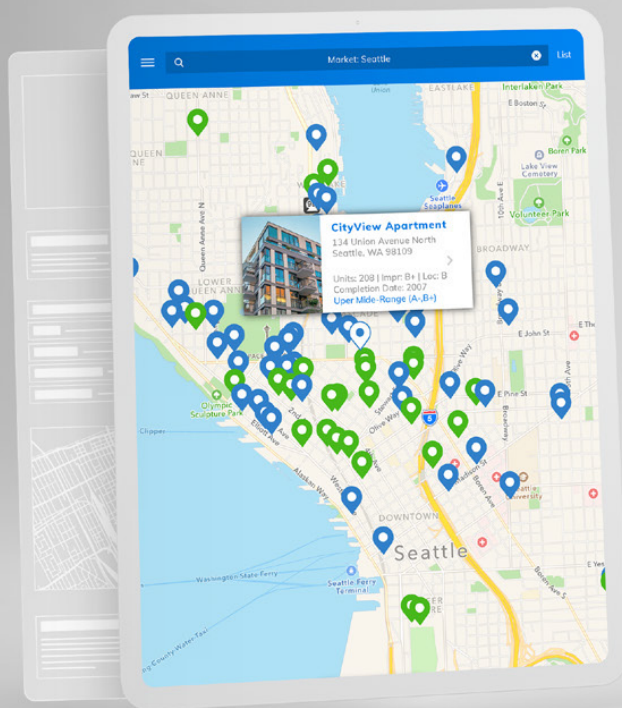
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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