



MULTIFAMILY REPORT

Albuquerque: Enduring Magnetism

September 2022

Rent Expansion Ahead of Nation

Investment on Track to Surpass 2021 High

Deliveries Soften, Construction Remains Elevated

ALBUQUERQUE MULTIFAMILY



Sustained Demand Boosts Rents

Albuquerque's momentous recovery that started in 2021's third quarter continued well into 2022, with cautioned moderation here and there. Rent growth remained slightly above the national rate for the third-consecutive month in July, when it rose 1.1% on a trailing three-month (T3) basis, to \$1,261. The strong performance is sustained by increasing demand paired with a tight inventory. The occupancy rate in stabilized properties stood at 96.6% as of June, down 20 basis points year-over-year but still healthy.

Unemployment stood at 4.6% in June, trailing the 3.6% U.S. rate but leading the 4.9% state figure. The job market maintained the lead over the U.S. for the sixth-straight month in May, when it posted a 6.0% year-over-year increase, or 18,300 jobs, well above the 4.7% U.S. rate. Mirroring the national trend, the recovery of the leisure and hospitality sector led gains, adding 7,800 jobs. Although the overall recovery is spotty—two sectors lost jobs and one remained flat—promising signs come from the tech industry, as several companies are expanding their footprints in the metro.

Deliveries softened, with just 65 units coming online this year through July, but the construction pipeline is robust, with 3,378 units underway. Meanwhile, investment surpassed \$502 million, nearing last year's \$549 million total, for a price per unit that increased by a hefty 55% year-over-year, to \$191,344.

Market Analysis | September 2022

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Recent Albuquerque Transactions

Vistas at Seven Bar Ranch



City: Albuquerque, N.M.
Buyer: Continental Realty Advisors
Purchase Price: \$129 MM
Price per Unit: \$225,350

AYA ABQ



City: Albuquerque, N.M.
Buyer: Kennedy Wilson
Purchase Price: \$93 MM
Price per Unit: \$184,722

Copper Ridge



City: Albuquerque, N.M.
Buyer: Tower 16 Capital Partners
Purchase Price: \$31 MM
Price per Unit: \$173,595

Olympus Highlands North

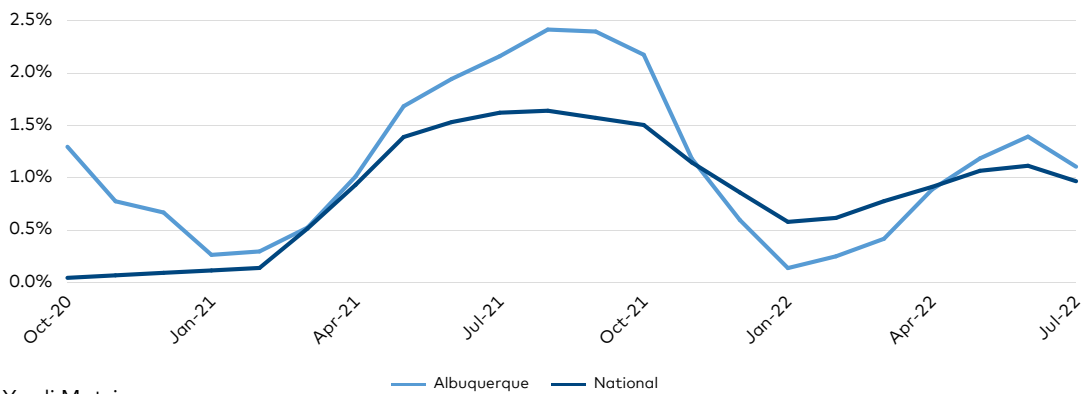


City: Albuquerque, N.M.
Buyer: Olympus Property
Purchase Price: \$31 MM
Price per Unit: \$334,420

RENT TRENDS

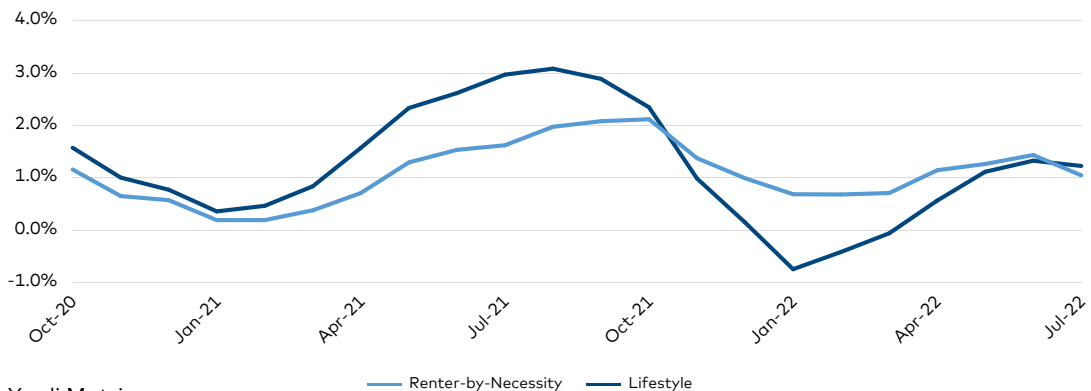
- ▶ Albuquerque rents rose 1.1% on a trailing three-month (T3) basis through July, 10 basis points ahead of the U.S. average but 40 basis points below the metro's June rate. At \$1,261 in July, Albuquerque's average asking rent is still affordable in comparison to the \$1,717 national rate. Year-over-year, the metro's average grew by 13.7%, outperforming the U.S. rate by 110 basis points.
- ▶ Housing demand was strong across the quality spectrum, but rent growth was led once again by Lifestyle units, after eight months behind the performance of the working-class Renter-by-Necessity segment. Lifestyle figures rose 1.2% on a T3 basis through July, to \$1,567. Meanwhile, RBN rents rose 1.0%, to \$1,111.
- ▶ The occupancy rate in stabilized properties reveals a tight rental market. Still, at 96.6% in June, the rate was slightly lower than 12 months ago, when it clocked in at 96.8%. The drop was caused by the RBN segment, with occupancy declining from 97.0% to 96.6%. Meanwhile, Lifestyle occupancy inched up by 10 basis points, to 96.6%.
- ▶ Year-over-year rent growth has been in the double digits across the map, which caused the average asking rate to rise substantially. In July, just three submarkets had an average below the \$1,000 mark, from eight a year ago. The most sought-after areas remained Albuquerque South (15.4% to \$1,883) and Santa Fe (15.6% to \$1,540), with the latter still posting the largest construction pipeline underway.

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

- ▶ Albuquerque's unemployment improved consistently from the start of the year, to as low as 3.8% in May. June brought a spike, to 4.6%. Although exhibiting a slower recovery—behind the 3.6% U.S. rate—the metro reached pre-pandemic figures and led the state by 30 basis points.
- ▶ The metro gained 18,300 jobs—a 6.0% expansion—in the 12 months ending in May, ahead of the 4.7% U.S. rate, continuing to outperform the nation since December 2021. Employment growth has been uneven. Two sectors lost jobs—professional and business services and financial activities (-300 jobs each)—while education and health services was the only sector that remained flat. Gains were led by the recovery of the leisure and hospitality sector (7,800 jobs).
- ▶ A major contributor to Albuquerque's regional economy—Sandia Science & Technology Park—housed 40 companies and organizations at the end of 2021. The pandemic cut the number of employees down to roughly 1,800 at the end of 2021, from 2,400 pre-pandemic. Some remote workers are expected to return once the pandemic threat is over. In addition, several expansions were announced at the park, including BlueHalo taking over the two facilities closed by Raytheon Technologies Corp.; the National Museum of Nuclear Science and History, which broke ground on a new building in April; and Titan Development's announced Titan Innovation Center.

Albuquerque Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	55	11.9%
40	Trade, Transportation and Utilities	75	16.3%
15	Mining, Logging and Construction	31	6.7%
90	Government	94	20.4%
80	Other Services	15	3.3%
30	Manufacturing	18	3.9%
50	Information	7	1.5%
65	Education and Health Services	77	16.7%
55	Financial Activities	21	4.6%
60	Professional and Business Services	68	14.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ While Albuquerque's population shrank by nearly 0.2% in the first year of the pandemic, it recovered losses in 2021, gaining 1,080 residents. This marked a 0.1% rise, on par with the national rate.
- ▶ Since 2012, the metro's population has expanded by 1.8%, trailing the 5.7% U.S. rate.

Albuquerque vs. National Population

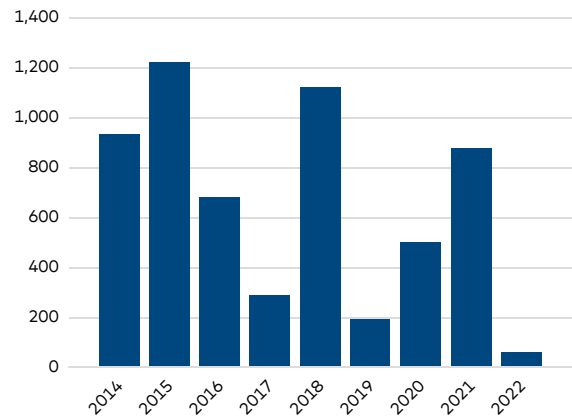
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Albuquerque	915,269	918,865	917,179	918,259

Source: U.S. Census

SUPPLY

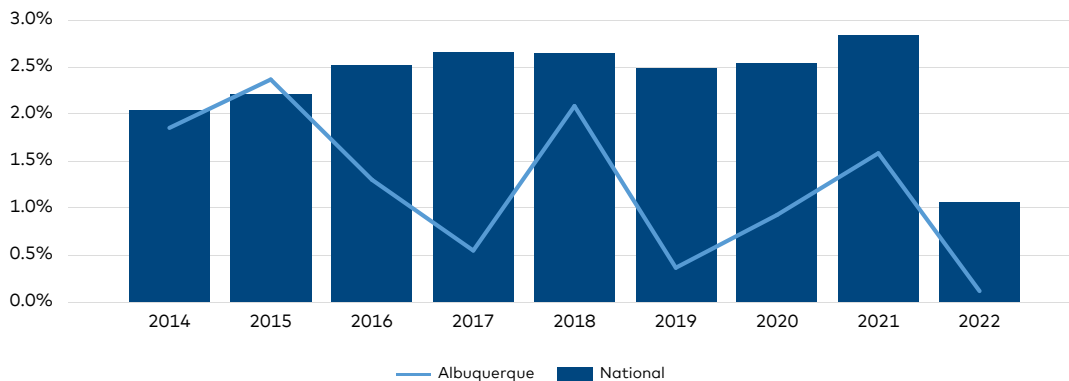
- ▶ Development remained elevated in Albuquerque, but deliveries nearly came to a halt. Through July, just 65 units in one fully affordable community came online, the equivalent of a mere 0.1% of existing stock and well below the 1.1% U.S. average. During the same period last year, the metro's multifamily stock expanded by 655 units.
- ▶ The construction pipeline had 3,378 units underway and another 7,300 units in the planning and permitting stages. One-third of apartments under construction were in Renter-by-Necessity properties: 23% in fully affordable communities and 13% market-rate units. Still, Albuquerque developers responded to the rising housing demand in the metro, with nearly two-thirds of the units underway in upscale properties. Yardi Matrix expects a total of 213 apartments to come online across Albuquerque through the end of 2022.
- ▶ Looking at construction starts, developers have intensified activity in Duke City, having broken ground on 1,136 units, up from 865 units during the same interval last year.
- ▶ Santa Fe remained the most attractive submarket to multifamily developers, accounting for nearly 40% of the construction pipeline (1,314 units).
- ▶ The largest project under construction as of July was BLVD 2500, owned by Rhino Investments Group. The development is an adaptive reuse project, which will convert the former Wyndham Albuquerque Hotel & Conference Center, built in 1972, into a 287-unit community.

Albuquerque Completions (as of July 2022)



Source: Yardi Matrix

Albuquerque vs. National Completions as a Percentage of Total Stock (as of July 2022)



Source: Yardi Matrix

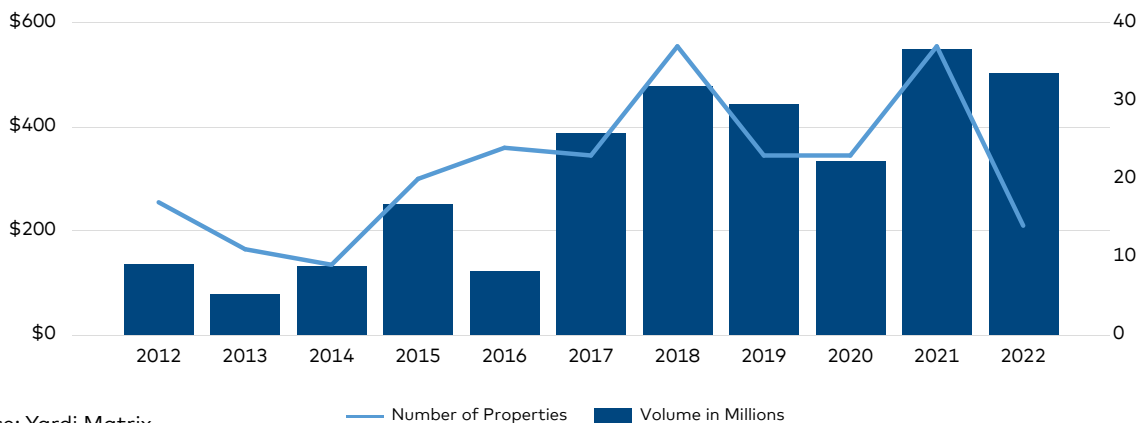
TRANSACTIONS

- ▶ Through July, more than \$502 million in multi-family assets traded in Albuquerque, surpassing the \$445 million volume recorded during the same period last year. Accounting for rising interest rates and inflation, the metro is still on track to outperform the 2021 high, when nearly \$549 million in assets traded in the metro.
- ▶ Sales composition shows greater investor interest for value-add plays, with two-thirds of deals comprising Renter-by-Necessity properties. Even

so, sustained investor appetite pushed the price per unit up 54.7% year-over-year through July, to \$191,344, narrowing the gap between Albuquerque and the \$216,893 national average.

- ▶ The largest sale of the 12 months ending in July was Continental Realty Advisors' acquisition of Vistas at Seven Bar Ranch from CORE Realty Holdings. The new owner paid nearly \$129 million, or \$225,350 per unit, for the 572-unit property in the Paradise Hills submarket. The purchase was aided by a \$70.2 million loan from TIAA.

Albuquerque Sales Volume and Number of Properties Sold (as of July 2022)



Source: Yardi Matrix

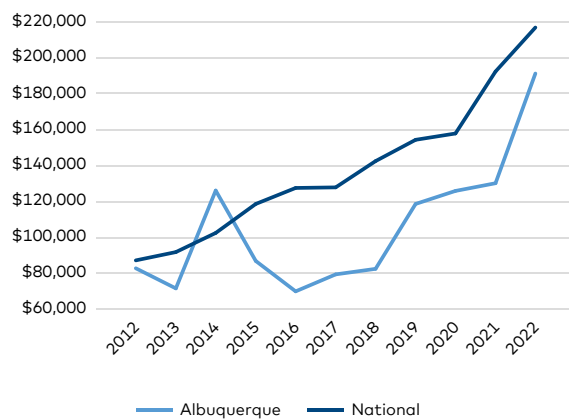
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Albuquerque - Paradise Hills	254
Albuquerque - Academy	138
Santa Fe	75
Albuquerque - La Cuesta	36
Albuquerque - South	33
Albuquerque - University	31
Albuquerque - Southeast	15

Source: Yardi Matrix

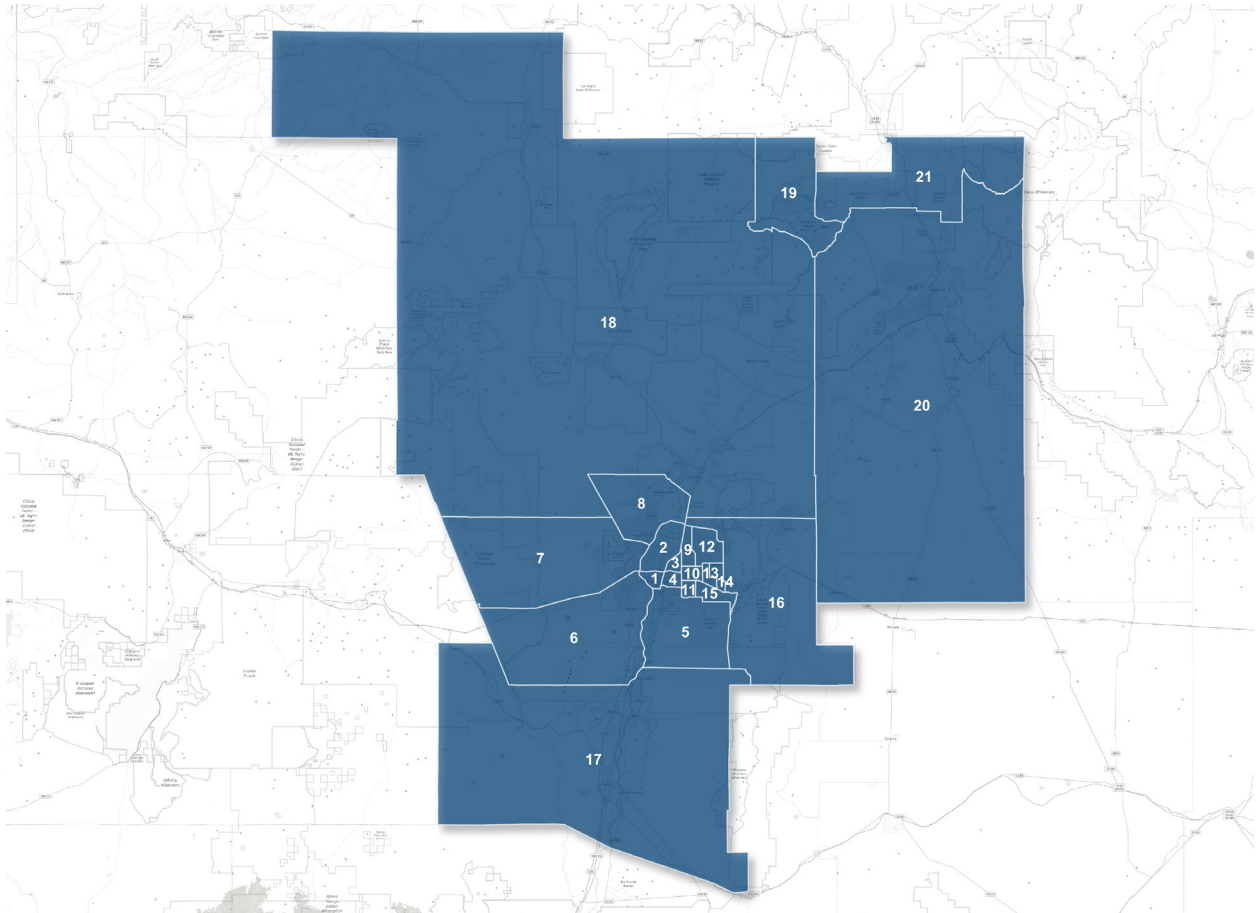
¹ From August 2021 to July 2022

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 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 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, 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.



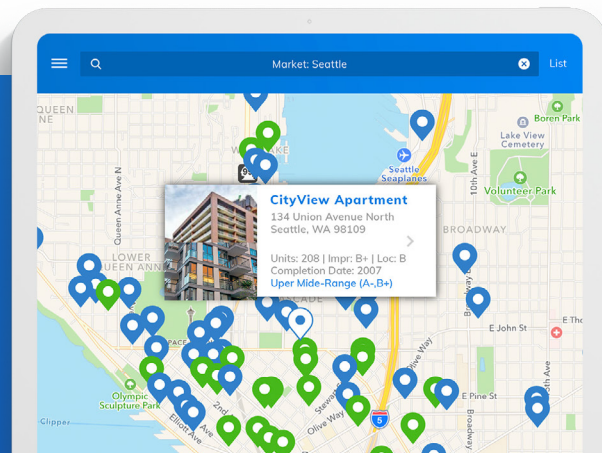
Yardi Matrix

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leading data provider



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- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



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