

Albuquerque Corrects Course

April 2024

Short-Term Rent Growth Trails US

New Construction Softens

Job Gains Trend Upward

ALBUQUERQUE MULTIFAMILY



Completions Spike, Demand Still Healthy

Albuquerque multifamily fundamentals were a mixed bag in 2023, but overall, the market remained healthy. Rents contracted under the pressure of robust supply, down 0.4% on a trailing three-month basis through February, to \$1,317, while the national rate ticked down 0.1%, to \$1,713. Still, occupancy endured, down just 30 basis points in the 12 months ending in February, to 94.9%.

Employment expanded by 2.4% last year, or 16,200 jobs, 40 basis points ahead of the U.S. rate. Since May 2023, the pace of job growth has been steadily improving. Meanwhile, the unemployment rate closed 2023 at 3.5%, following a year of fluctuation between 2.8% and 4.6%. The December figure placed the metro ahead of the U.S. (3.7%) and the state (4.0%). Last year, three sectors lost a combined 1,600 jobs: professional and business services, information and financial activities. Construction (4,100 jobs), government (3,900 jobs) and education and health services (3,400 jobs) led growth. Manufacturing also recorded solid advancements, and signs point to further growth. One such indicator is Maxeon Solar Technologies' plan for a \$1 billion investment in solar panel production.

This year through February, 240 units came online and another 3,892 were under construction. Following last year's decade-high delivery volume, construction starts softened. Meanwhile, transactions remained subdued, with just one property trading so far in 2024.

Market Analysis | April 2024

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Recent Albuquerque Transactions

The Overlook



City: Albuquerque, N.M.
Buyer: Bascom Group
Purchase Price: \$68 MM
Price per Unit: \$198,837

Villas Del Cielo



City: Albuquerque, N.M.
Buyer: Element Property Co.
Purchase Price: \$37 MM
Price per Unit: \$133,714

Arlo

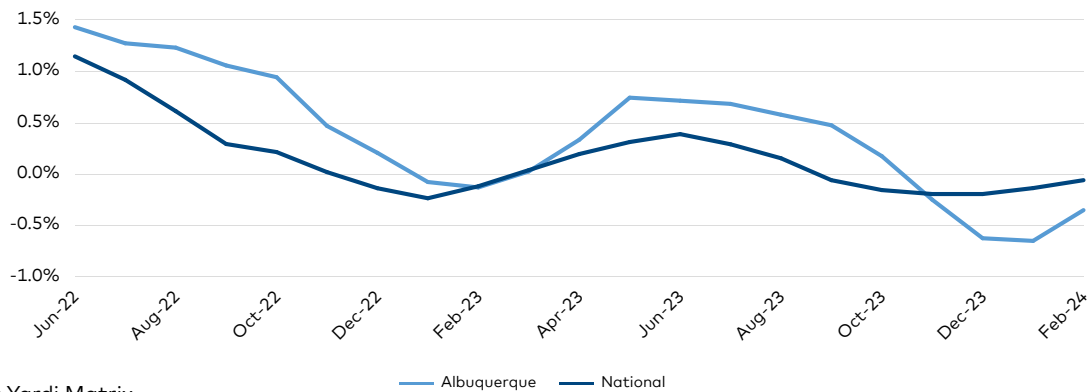


City: Albuquerque, N.M.
Buyer: Engel Realty
Purchase Price: \$14 MM
Price per Unit: \$116,000

RENT TRENDS

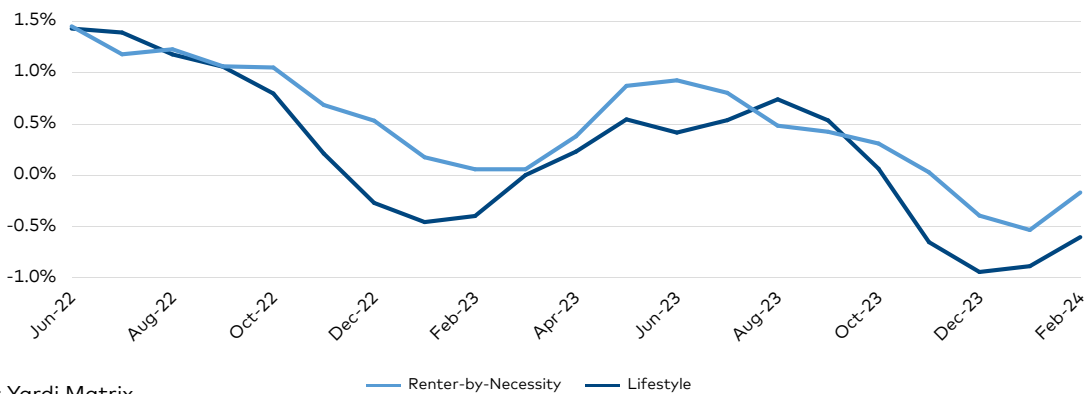
- Rent movement remained negative for the fourth consecutive month in Albuquerque, but the rate of decline is easing as the prime leasing season approaches. The average asking rent in the metro decreased 0.4% on a trailing three-month (T3) basis through February, to \$1,317. Meanwhile, the U.S. rate inched down 0.1%, to \$1,713. In line with national trends, the metro's short-term growth has been mainly impacted by strong deliveries.
- Year-over-year, the dynamic is reversed, with rents in the metro up 2.2%, and the national rate up 0.6% as of February. The working-class Renter-by-Necessity segment made all the difference for Albuquerque, up 3.7%, while Lifestyle figures inched up only 0.1% over 12 months.
- Rent movement was negative across asset classes on a T3 basis, and steeper in the upscale Lifestyle segment, down 0.6% through February, to \$1,587. RBN rents declined 0.2%, to \$1,181. Occupancy rates attest to the metro's robust demand despite the recent contractions in rents, which are minimal considering nationwide trends and supply levels. The rate in stabilized properties declined just 30 basis points in the 12 months ending in February, to 94.9%. A slightly sharper drop seen was in the Lifestyle segment, which declined 40 basis points, to 95.5%, while RBN occupancy decreased 30 basis points, to 94.6%.
- On an annual basis, rents depreciated in only one submarket: Westside (-1.6% to \$1,380). The most expensive submarkets were Santa Fe (up 7.5% to \$1,751) and Paradise Hills (1.1% to \$1,475).

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 unemployment decreased to 3.5% in December, closing a dynamic year during which the rate dipped as low as 2.8% in March and climbed as high as 4.6% in July. The December figure put Duke City ahead of the U.S. (3.7%) and the state (4.0%), according to data from the Bureau of Labor Statistics.
- ▶ Throughout 2023, employment expanded by 2.4%, or 16,200 jobs, outperforming the 2.0% national rate. Job growth has been consistently accelerating from the 1.7% rate recorded in May 2023. Still, three sectors lost jobs last year: professional and business services (-1,300 jobs), information (-200 jobs) and financial activities (-100 jobs).
- ▶ The leading sectors for job gains were mining, logging and construction (4,100 jobs), government (3,900 jobs) and education and health services (3,400 jobs).
- ▶ Demand for renewable energy in the state has prompted manufacturing companies to start or expand operations in the metro. Firms include ABB Elastimold (55 jobs), Arcosa (250 jobs), Array Technologies (538 jobs) and mtex Antenna (62 jobs). Additionally, Singapore-based Maxeon Solar Technologies has announced plans to open a 3-gigawatt facility in Mesa Del Sol, which is expected to begin commercial production in 2025. The venture represents the firm's planned \$1 billion investment in solar panel production.

Albuquerque Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
15	Mining, Logging and Construction	32	6.6%
90	Government	97	20.0%
65	Education and Health Services	82	16.9%
40	Trade, Transportation and Utilities	81	16.7%
70	Leisure and Hospitality	56	11.5%
30	Manufacturing	19	3.9%
80	Other Services	16	3.3%
55	Financial Activities	23	4.7%
50	Information	7	1.4%
60	Professional and Business Services	72	14.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Albuquerque gained 2,580 residents in 2022, a 0.3% population increase, regaining the residents lost in 2021. Still, demographics in the metro lagged the national rate by 10 basis points.
- ▶ Between 2019 and 2022, the metro added 3,860 residents.

Albuquerque vs. National Population

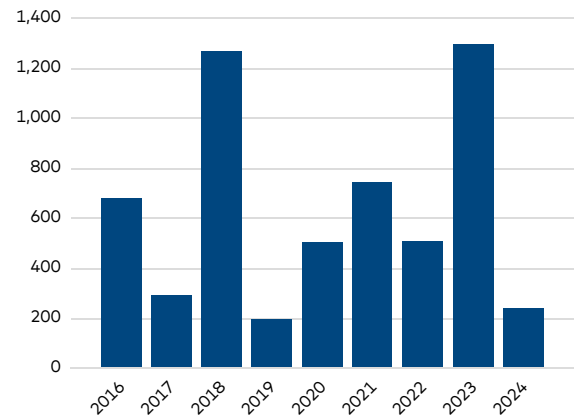
	2019	2020	2021	2022
National	324,697,795	326,569,308	329,725,481	331,097,593
Albuquerque	912,108	915,986	913,388	915,968

Source: U.S. Census

SUPPLY

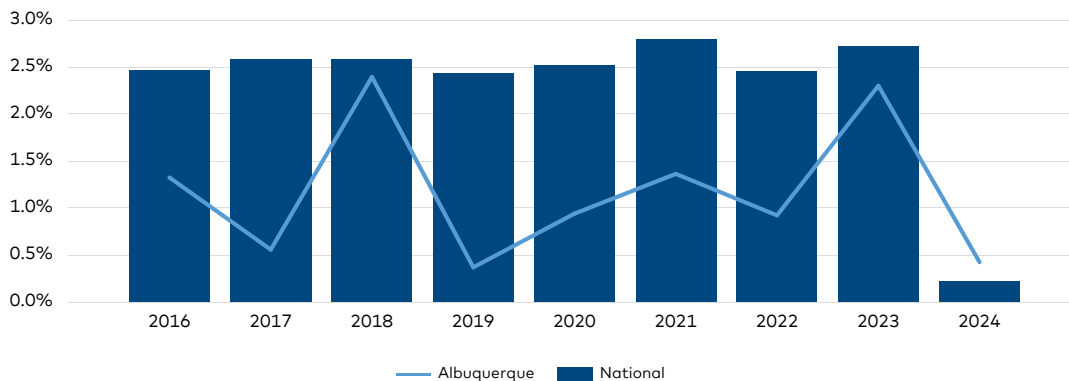
- ▶ During the first two months of 2024, developers delivered a 240-unit Lifestyle property in Albuquerque, the equivalent of 0.4% of existing stock and double the 0.2% national rate. Last year was the best in a decade for supply expansion, with the metro's inventory growing by 1,294 units. This was one of the main factors putting pressure on rent growth, which moved into negative territory in the last quarter of 2023.
- ▶ The construction pipeline remained robust for a metro of Albuquerque's size, comprising 3,892 units underway as of February and another 9,400 units in the planning and permitting stages. The pipeline consisted of roughly three-quarters Lifestyle units, with the remaining projects being RBN and fully affordable apartments. A significant chunk of projects under construction is slated for completion by the end of 2024; this will likely continue to impact rent growth and occupancy.
- ▶ Development is tapering off in Albuquerque—just one 65-unit property broke ground in the metro in 2024. That followed last year's 1,097 units across six properties and was well below the 1,979 units across 10 properties that started construction in 2022.
- ▶ Santa Fe led construction activity with 1,098 units underway as of February. Next in line were the metro's Academy (604 units) and Northeast (392 units) submarkets.
- ▶ The project delivered in 2024 through February was also in Santa Fe. South Meadows is owned by The Peters Corp., which built the 240-unit property with aid from a \$49.7 million HUD construction loan issued in 2020 and originated by CBRE Capital Markets.

Albuquerque Completions (as of February 2024)



Source: Yardi Matrix

Albuquerque vs. National Completions as a Percentage of Total Stock (as of February 2024)

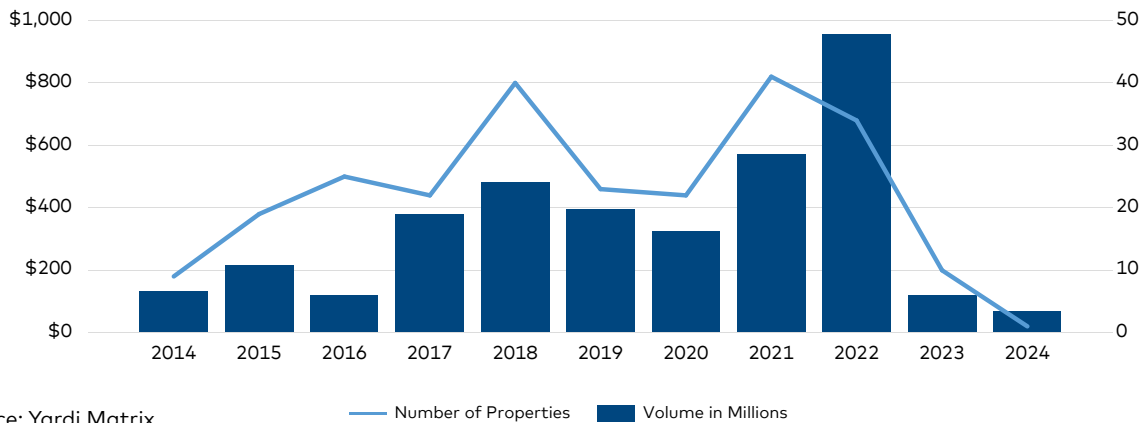


Source: Yardi Matrix

TRANSACTIONS

- ▶ Transaction activity in 2024 through February was limited to just one asset of more than 50 units—a Lifestyle property sold by Sheiner Group for \$68.4 million. The buyer was Bascom Group, which acquired it with aid from a \$51.3 million loan originated by TPG Capital. Last year marked the weakest year for investment volume in a decade, with just \$120.3 million in multifamily assets trading in Albuquerque.
- ▶ The average price per unit was \$121,001 in 2023, far below the \$185,662 national figure. Albuquerque's per-unit value recorded a 28.5% year-over-year decline from the peak registered in 2022, due to a series of factors including higher capital costs, tighter lending standards and mounting recession anticipation. However, the sales composition also played a role, as 90% of sales involved RBN assets, a significant departure from 2022's more balanced transaction mix.

Albuquerque Sales Volume and Number of Properties Sold (as of February 2024)



Source: Yardi Matrix

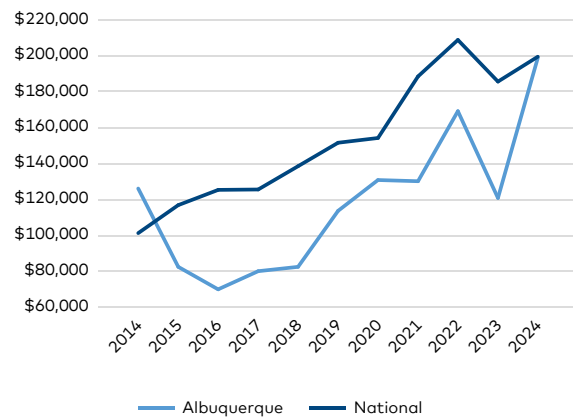
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Albuquerque–Northeast	68
Albuquerque–Montgomery	37
Albuquerque–Paradise Hills	24
Albuquerque–Uptown	14
Albuquerque–International District	12
Albuquerque–Southeast	10

Source: Yardi Matrix

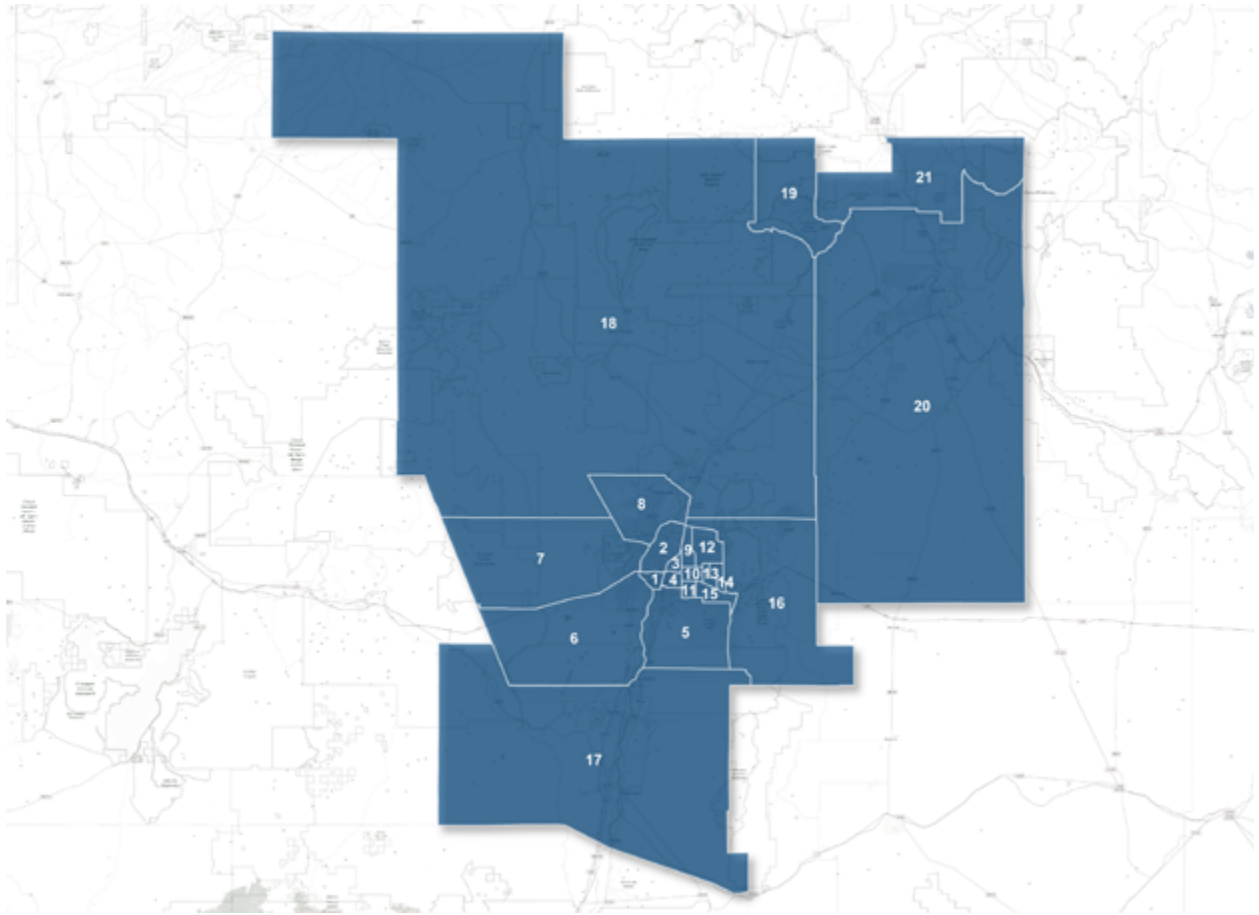
¹ From March 2023 to February 2024

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.

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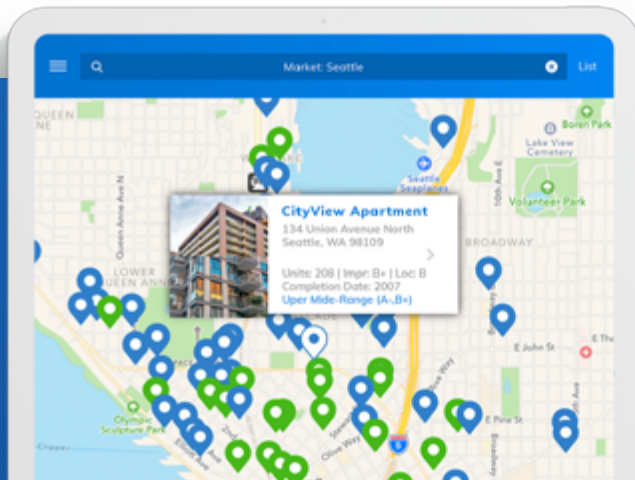
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- Gain complete new supply pipeline information from concept to completion
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