Yardi Matrix

Albuquerque: Mixed Results

April 2023

Deliveries, Investment Paused

Unemployment at Record Lows

Rent Expansion on Par With US

IⱮ Yardi Matrix

Oscillating Multifamily Fundamentals

New Mexico's strategic location, lower cost of living compared to neighboring states and economical business opportunities have boosted interest in Albuquerque. This has benefited the rental sector, and fundamentals have improved consistently this decade. However, some moderation has started, with rent movement recently turning negative, down 0.1% on a trailing three-month basis as of February, to $1,283. Occupancy in stabilized properties declined 100 basis points year-over-year as of January, but remained healthy at 95.3%.

Albuquerque's unemployment stood at a record low 3.5% in January, on par with the state and 10 basis points below the U.S. average, according to preliminary data from the Bureau of Labor Statistics. The job market expanded 1.7% year-over-year as of December, trailing the 3.7% national rate. Three sectors contracted for a combined 3,400 jobs lost, while education and health services and leisure and hospitality led gains with 1,600 positions each. Intel, Netflix and Manna Capital Partners and Ball Corp.'s partnership are among the entities with planned expansions, which will prop up the metro's economy.

Sales and deliveries paused, with no sales or completions registered through February. Still, the construction pipeline had 3,241 units underway, and last year marked an all-time high in transaction volume, with $934 million in multifamily sales.

Market Analysis | April 2023

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Recent Albuquerque Transactions

Olympus de Santa Fe

City: Santa Fe, N.M.
Buyer: Olympus Property
Purchase Price: $56 MM
Price per Unit: $310,519

Vista Grande

City: Rio Rancho, N.M.
Buyer: Tailwind Investment Group
Purchase Price: $18 MM
Price per Unit: $105,159

Valley

City: Albuquerque, N.M.
Buyer: TriWest Development
Purchase Price: $16 MM
Price per Unit: $117,143

Sun Plaza

City: Albuquerque, N.M.
Buyer: TriWest Development
Purchase Price: $14 MM
Price per Unit: $91,614

RENT TRENDS

➤ Albuquerque rent movement turned negative, contracting 0.1% on a trailing three-month (T3) basis through February, on par with the U.S. rate. The gap between the two averages closed, following 10 months of Albuquerque outperforming the nation. On a year-over-year basis, the metro's 8.9% rate in February was well ahead of the 4.8% U.S. average. At $1,283, the metro is still among the most affordable markets in the U.S. and well below the $1,702 national figure.

➤ Lifestyle rates contracted for the third consecutive month, down 0.4% on a T3 basis through February, to $1,576, while Renter-by-Necessity rent gains remained positive, albeit moderating, up 0.1% to $1,140.

➤ The occupancy rate in stabilized properties also signaled a cooldown in demand, down 100 basis points year-over-year as of January, to 95.3%. The decline was even across property segments, to 95.2% for RBN units and 95.5% for Lifestyle apartments.

➤ Of the 19 submarkets tracked by Yardi Matrix, 10 posted double-digit increases on an annual basis, and one submarket saw its average rate contract. The number of submarkets with the average asking rent below $1,000 dropped to one, from six a year ago. Santa Fe (12.1% to $1,627) and Albuquerque-South (24.5% to $1,615) were the most-sought-after regions, with the latter also marking the largest rent increase and the former posting the biggest construction pipeline.

Albuquerque vs. National Rent Growth (Trailing 3 Months)
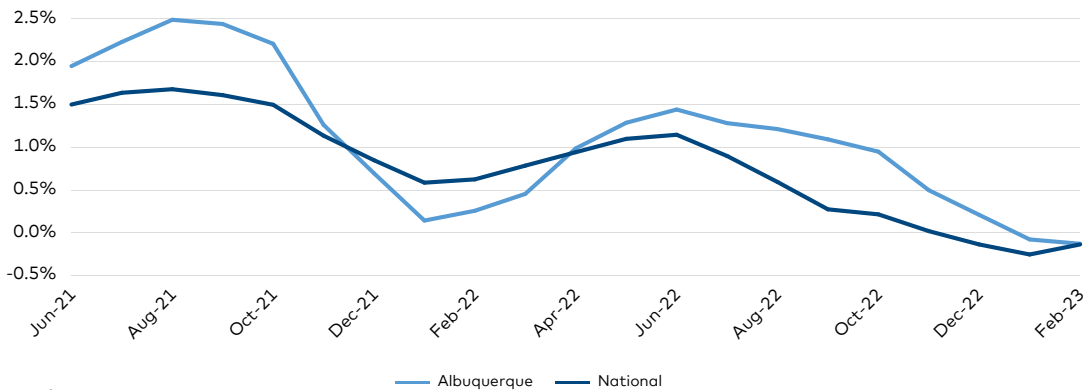
Source: Yardi Matrix

Albuquerque Rent Growth by Asset Class (Trailing 3 Months)
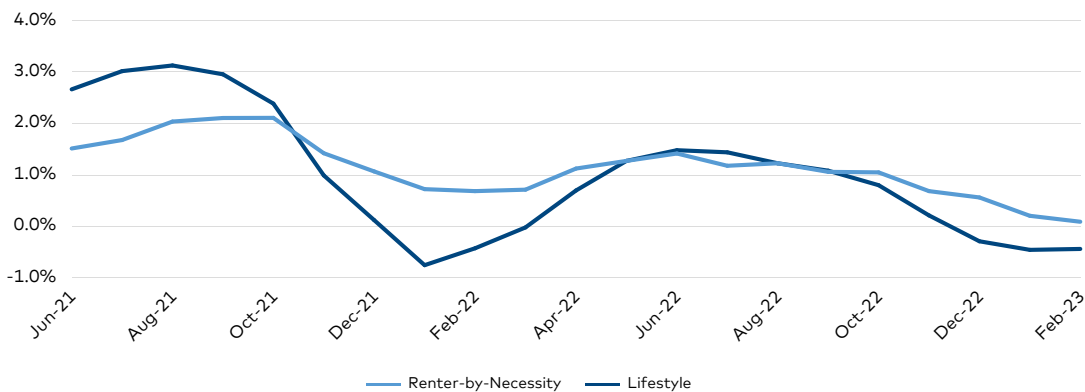
Source: Yardi Matrix

ECONOMIC SNAPSHOT

➤ Albuquerque's unemployment rate started the year at 3.5%, on par with the state and 10 basis points below the U.S. average. A major improvement from the 5.1% recorded in January 2022, and well above pre-pandemic rates, unemployment was down 40 basis points in one month.

➤ The metro's employment growth steadily outperformed the U.S. in 2022, but following the April 6.3% high, the rate started moderating. In the 12 months ending in December, job growth was 1.7%, or 3,400 jobs, well below the 3.7% national rate. Although the metro has recovered most of the jobs lost during the pandemic, government, trade, transportation and utilities and financial activities contracted by 3,400 positions combined.

➤ Despite the considerable slowdown in economic expansion, Albuquerque has several projects that will sustain the economy, even during a recession. Intel's $3.5 billion expansion in Rio Rancho has created 1,000 construction jobs and will generate 700 permanent positions by 2024. The plant will have a substantial ripple effect on the local economy, indirectly supporting about 3,500 jobs. Another notable development is Manna Capital Partners and Ball Corp.'s $2 billion aluminum can sheet rolling mill and recycling center, where 950 workers will be needed by its 2026 completion. Meanwhile, Netflix's $1 billion expansion is slated to open in 2024.

Albuquerque Employment Share by Sector

Code	Employment Sector	Current Employment (000)	% Share
65	Education and Health Services	79	17.0%
70	Leisure and Hospitality	53	11.4%
15	Mining, Logging and Construction	31	6.7%
80	Other Services	15	3.2%
60	Professional and Business Services	70	15.1%
30	Manufacturing	18	3.9%
50	Information	6	1.3%
55	Financial Activities	21	4.5%
40	Trade, Transportation and Utilities	77	16.6%
90	Government	94	20.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

➤ Albuquerque gained 1,080 residents in 2021, for a 0.1% uptick, on par with the national rate.

➤ Duke City's demographics expanded 3.2% since the 2010 Census, less than half the 7.3% U.S. average for the same period.

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

➤ Developers had 3,241 units under construction as of February, and another 9,200 units in the planning and permitting stages. Roughly 75% of the projects underway were Lifestyle properties, while the affordable component accounted for 14%.

➤ Through February, no units came online in Albuquerque, and although some 2,800 are slated for completion by the end of the year, Yardi Matrix anticipates that just 1,737 units will be delivered in 2023, accounting for 3.2% of existing stock. This figure would make 2023 the best year of the cycle.

➤ The impact of rising rates and persisting inflation affected the number of construction starts, with no new projects breaking ground in 2023. Last year though, 1,583 units in 11 properties broke ground in Duke City, slightly above 2021's volume, when construction got underway on 1,350 units in six properties. Rigid conditions for construction financing will likely further diminish the construction pipeline.

➤ Development was widespread yet uneven across Albuquerque, present in 11 of the 19 submarkets tracked by Yardi Matrix. Santa Fe held a significant lead, with 932 units under construction. Next in line was Albuquerque-Northeast with 392 units underway.

➤ The largest project under construction as of February was Encanto, a 318-unit community owned by DiNapoli Capital Partners. The property is being built with aid from a $59.3 million construction loan issued by Hamblin Watsa Investment Counsel and slated for completion in the last quarter of 2024.

Albuquerque Completions (as of February 2023)
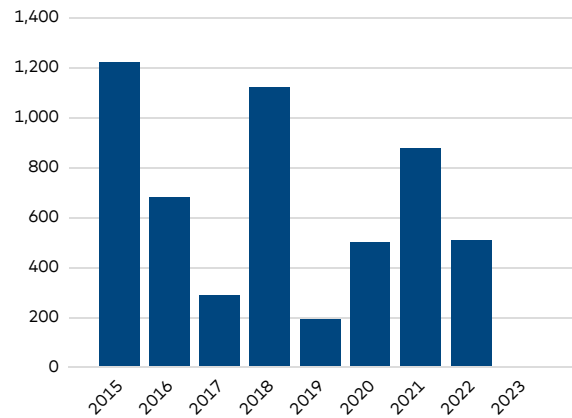
Source: Yardi Matrix

Albuquerque vs. National Completions as a Percentage of Total Stock (as of February 2023)
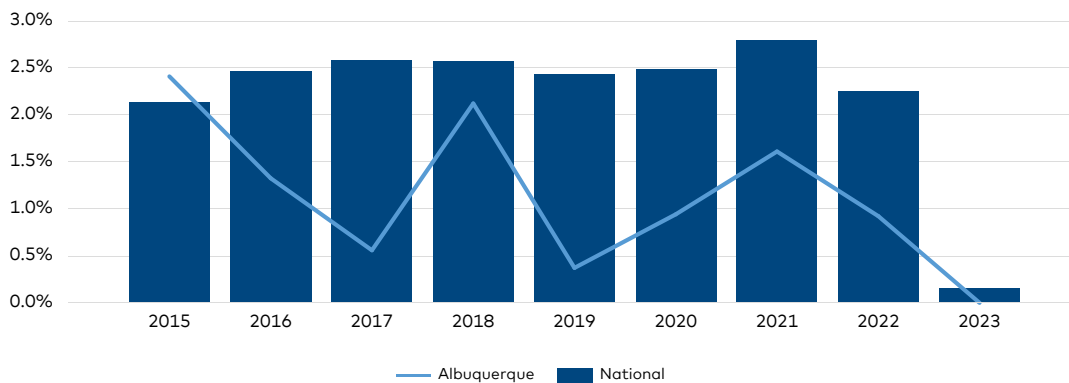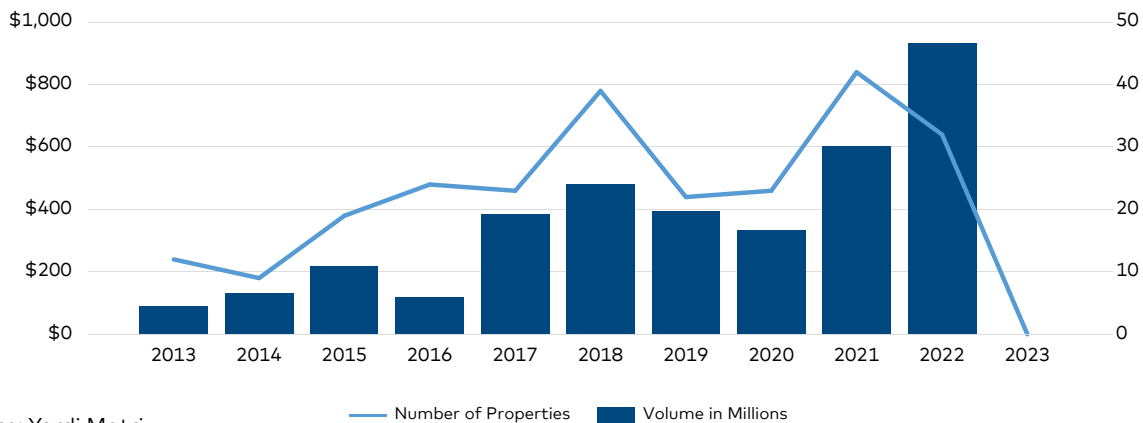

Source: Yardi Matrix

TRANSACTIONS

➤ Albuquerque's investment totals have quickly improved following the pandemic, with strong performance in both 2021 ($604 million) and 2022 ($934 million). However, mounting economic uncertainty rapidly dampened sales activity at the end of last year and into 2023, as no deals were signed this year through February. Moreover, transactions will likely remain tepid until inflation and interest rates recede.

➤ The average U.S. per-unit price stood at $204,722 in February, a 3.0% decline from

December. Meanwhile, the price per unit in Albuquerque rose by a substantial 28.2% year-over-year in December, to $171,507. This is especially impressive since 75% of last year's sales involved RBN properties. The largest deal registered in the second half of 2022 was Legacy Development & Management's sale of Olympus de Santa Fe. Olympus Property acquired the 180-unit asset with aid from a $42 million CMBS loan issued by Berkadia Commercial Mortgage.

Albuquerque Sales Volume and Number of Properties Sold (as of February 2023)
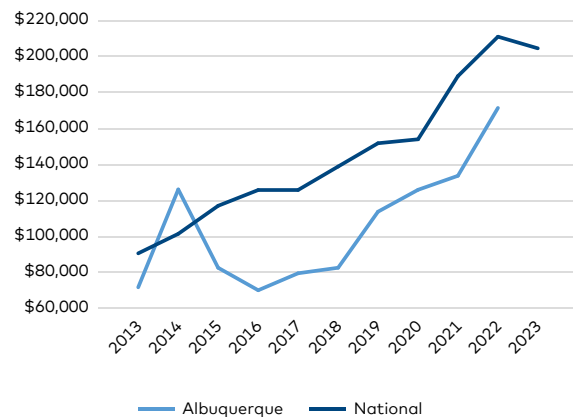

Source: Yardi Matrix

Number of Properties | Volume in Millions

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Albuquerque-Paradise Hills	257
Albuquerque-Northeast	168
Albuquerque-South	57
Santa Fe	56
Albuquerque-Academy	53
Albuquerque-International District	48
Albuquerque-North Valley	40

Source: Yardi Matrix
[1] From March 2022 to February 2023

Albuquerque vs. National Sales Price per Unit

Albuquerque | National

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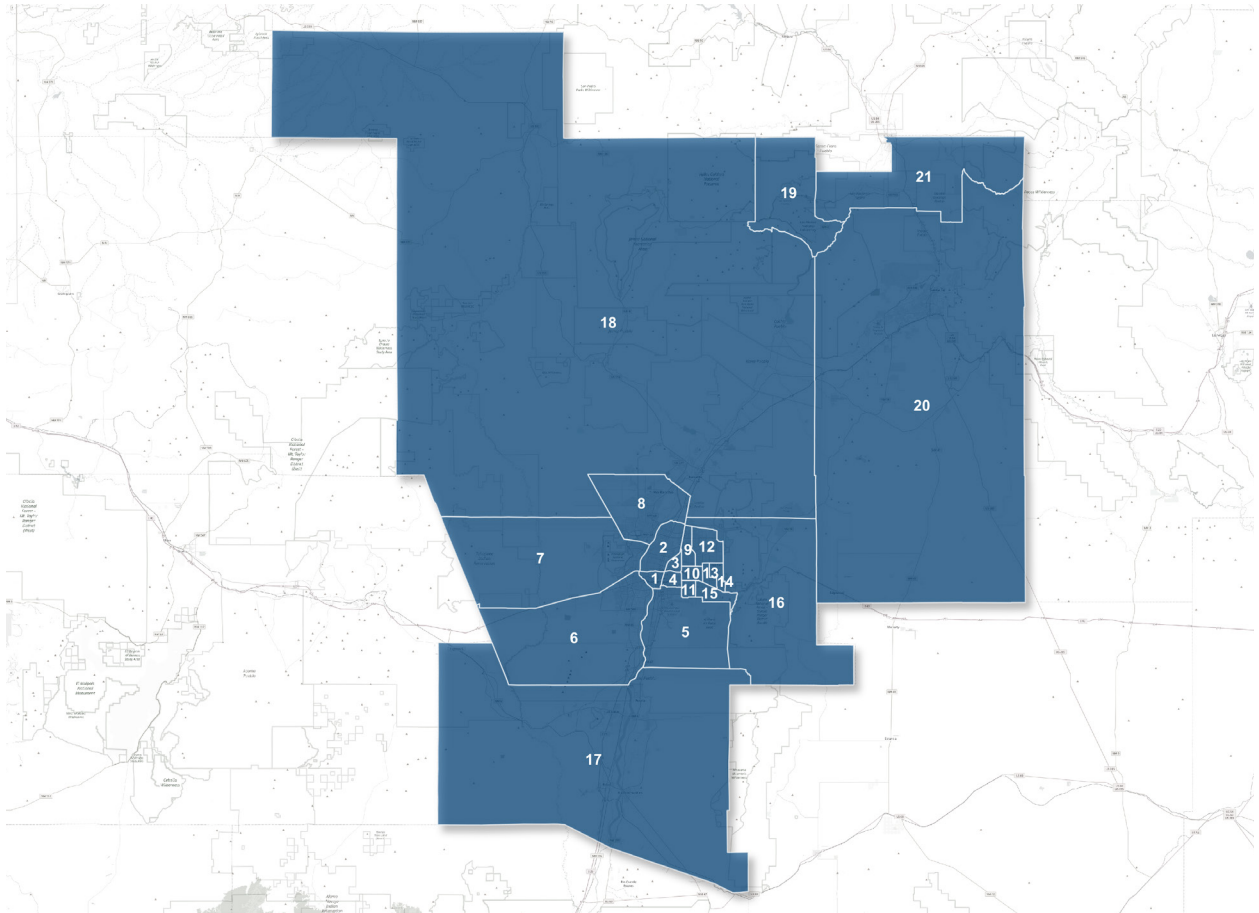
Area No.	Submarket
1	Albuquerque–Central
2	Albuquerque–North Valley
3	Albuquerque–Montgomery
4	Albuquerque–University
5	Albuquerque–South
6	Albuquerque–South Valley
7	Albuquerque–Westside
8	Albuquerque–Paradise Hills
9	Albuquerque–Academy
10	Albuquerque–Uptown
11	Albuquerque–International District

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

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.
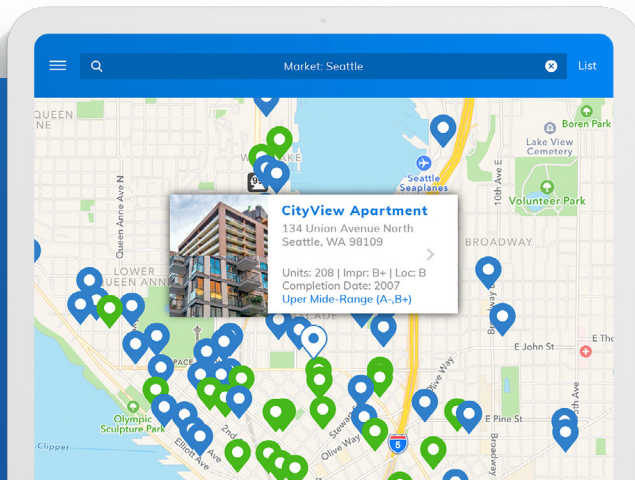
Yardi® Matrix

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MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info

- 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

CityView Apartment
134 Union Avenue North
Seattle, WA 98109

Units: 208 | Impr: B+ | Loc: B
Completion Date: 2007
Uper Mide-Range (A-,B+)

Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

✔ YARDI

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