

UPBEAT prognostication

Metro area forecast to see signs of recovery in 2010, buck national commercial real estate trends

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Commercial real estate in the Albuquerque metro area will buck national trends and begin to see some positive signs in 2010, according to a bold forecast by Grubb & Ellis New Mexico.

"The media is saying that commercial real estate hasn't hit bottom yet," said company CEO John Lewinger. "It's specific properties that aren't doing well, but not commercial real estate in general. We're still leasing and we're still selling properties to users."

The vacancy rate for rentable office space in the metro is predicted to drop from a preliminary 15.9 percent at the end of 2009 to 15.3 percent at the end of 2010, according to the local forecast. In contrast, the average vacancy rate nationwide is expected to increase from 17.6 percent to 18.7 percent over the same

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COMMERCIAL REAL ESTATE VACANCY RATES IN ALBUQUERQUE



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In December, Hewlett Packard vacated about 62,000 square feet of temporary space in Albuquerque and moved into the new 218,000-square-foot office building in Rio Rancho shown here.

Forecast sees 2010 turnaround

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period.

The same holds true for the local retail market. The vacancy rate is predicted to drop from a preliminary 10.8 percent at the end of 2009 to 10 percent at the end of 2010. The national forecast is for an increase in the retail vacancy rate from 10.8 percent to 11.7 percent over the same period.

"By the beginning of the second quarter, I personally believe there will be a boost in consumer confidence," Lewinger said. "I believe there are a lot of people with money to spend and they'll come out of the woodwork in the second quarter."

The local forecast for industrial buildings like warehouses and assembly plants is gloomier. The local vacancy rate is expected to climb from a preliminary 9.1 percent at the end of 2009 to 10.6 percent at the end of 2010. The national forecast is for an increase from 10.7 percent to 11.4 percent over the same period.

Downside: dropping lease rates

The dark side for Albuquerque's commercial real estate in 2010 will be dropping lease rates. As examples, the average asking lease rate for office space is expected to drop down to the 2007 level, while the asking rate for industrial space is expected to plunge to a level not seen in 10 years.

While good for companies seeking to rent, dropping lease rates are a sign of weak demand and a sluggish economy.

As the bricks-and-mortar of the economy, commercial real estate is considered a lagging indicator of where the economy is headed. It takes several months, sometimes as long as a year, for commercial real estate to feel the impact of changes in key economic indicators like employment, consumer spending and home construction, said Ken Schaefer, who helped put together Grubb & Ellis' forecast.

Headquartered in Santa Ana, Calif., and publicly traded on the New York Stock Exchange, Grubb &



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Copper Point, the 211,077-square-foot overhaul of the former Siemens Stromberg-Carlson plant near Interstate 40 and Eubank NE, attracted a private college as its first tenant in late 2009.



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As a sign of the times in the industrial market, General Electric's 477,000-square-foot aircraft parts plant in the South Valley is scheduled to close later this year.

Ellis has about 130 offices around the country. The Albuquerque office was established in 1997, when the locally owned commercial real estate firm of Lewinger Hamilton Inc. affiliated with Grubb & Ellis and gradually assumed the name.

Looking back at the company's recent local forecasts, Grubb & Ellis based its forecast for 2008 on the theme of "uncertainty." Cracks were beginning to show at the end of what had been a robust year for commercial real estate in 2007. The company's prediction for small increases in local vacancy rates for the office, industrial and retail markets proved low by an average of 1

percentage point.

The recession's impact on the local economy was starting to grow when Grubb & Ellis came out with its forecast for 2009. Again, its prediction for small increases proved low – this time by an average of 1.5 percentage points for the three market types.

"On the trends side, we got it right," Lewinger said about the 2008 and 2009 forecasts. "Anything within a 100 basis points (or 1 percentage point) is pretty good. We missed some of the (forecasted) vacancy rates pretty badly."

The difficulty in making those forecasts was trying to gauge how deep the economic recession would go in the

metro, he added.

Office market boost

Last year ended with a bang for the metro's office market.

Hewlett Packard moved into its new 218,000-square-foot office building in Rio Rancho in December, while the U.S. General Services Administration confirmed plans for construction of an approximately 33,000-square-foot building at Mesa del Sol in 2010, reportedly for Immigration and Customs Enforcement offices.

Office activity, whether in the form of leases or build-to-suit projects, likely will be generated by alternative energy, government, health care and private education. As an exam-

ple of the latter, Fort Mitchell, Ky.-based Brown Mackie College recently signed a lease for 35,000 square feet at Copper Point, the 211,077-square-foot renovated former industrial building near Eubank and Interstate 40.

Demand for industrial space has dwindled because of the recession's impact on the manufacture and distribution of goods.

A prime example is the planned closing of General Electric's aircraft parts plant in the South Valley in the second half of 2010. Opened in 1967, the 477,000-square-foot plant is unlikely to land a replacement tenant anytime soon, the Grubb & Ellis forecast notes.

What's really hurting the industrial market is the growing volume of space available for sublease, which amounted to more than 1.5 million square feet at the end of 2009, according to Grubb & Ellis. Sublease space is rented, and thus still producing income for the landlord, but is no longer needed by the tenant.

Sublease space is attractive because its asking lease rates are typically discounted below market averages in an attempt by the tenants to unload it. In a cause-and-effect way, the forecast says, "This will drive overall asking rates down as landlords are forced to lower rates in order to compete."

A positive retail sign

The holiday shopping season ended on a positive nationwide after a sluggish start in November, according to Purchase, N.Y.-based MasterCard Advisors' latest SpendingPulse report.

Between Nov. 1 and Dec. 24, retail and service sales increased 3.6 percent nationwide compared to a year earlier. The increase bodes well for retail real estate in the coming year. Much of the activity will likely be retailers already in the metro, according to the forecast.

"The environment will be ripe for established tenants to expand to new locations or upgrade to better locations at attractive rates using a flight-to-quality strategy," the report says.