

Office vacancy rate sets record

■ *Metro-area jobless rate, weak economy fuel rise in unused commercial space*

*Copyright © 2010
Albuquerque Journal*

BY RICHARD METCALF
Journal Staff Writer

The dreary employment picture continues to play out in the Albuquerque metro area's office market.

The vacancy rate climbed from 16 percent at the end of 2009 to 17.1 percent in the first quarter, surpassing the previous high-water mark of 17 percent set in the first quarter of 2004, according to the latest Office Market Trends report by Grubb & Ellis New Mexico. The vacancy rate was 14.4 percent in the first quarter of 2009.

“With the exception of health care and education, very few tenants are in a growth mode right now,” the report says. “When given the opportunity, many tenants are opting for consolidations and downsizing of space.”

Unemployment was running at 9 percent in February, the latest month available, which is not far off the national rate of 9.7 percent. Since the start

See METRO on PAGE 5

Metro office vacancy rate hits record 17.1%

from PAGE 1

of the national economic recession in December 2007, the metro's work force has shrunk to the level of early 2005, according to state labor statistics.

Particularly hard hit has been business and professional services, which is the biggest job sector outside government and a major driver of demand for office space. The sector has seen a 5.1 percent loss of jobs since early 2009, compared to a 2.1 percent job loss across all 12 employment sectors in the metro.

In addition, the crash in construction activity — employment in that job sector is at a 10-year low — has had a ripple effect across the office market over the past two years. The most dramatic example has been the mass closing of mortgage company offices that once dotted the landscape during the housing boom in the mid 2000s, noted Terri Dettweiler of CB Richard Ellis.

Labor ripples

"The labor market was particularly hard hit by the recession," Federal Reserve Chairman Ben Bernanke told a Congressional committee last week. "If the pace of the recovery is moderate, as I expect, a significant amount of time will be required to restore the 8.5 million jobs that were lost during the past two years."

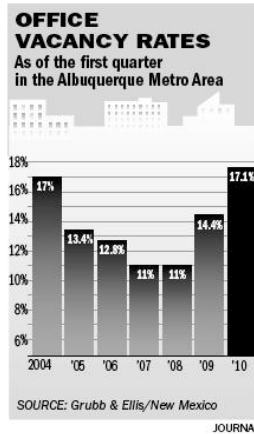
Here in Albuquerque, 28,000 jobs were lost over the past two years. At a healthy job growth rate of 2 percent a year, it would take close to four years to regain those lost jobs. Since the metro continues to lose jobs on a year-over-year basis, it will take some time before there's going to be 2 percent job growth, said Walt Arnold of Sperry Van Ness/Walt Arnold Commercial Brokerage.

"We've got to see some consistent job growth, not that refrain of 'we didn't lose as many jobs this month as



JOURNAL FILE

Albuquerque's office market, illustrated by the Downtown office hub shown here, has a record amount of space sitting empty.



last month," he said about the potential for a significant turnaround in demand for office space.

"Office is the last product type to finally

start improving after a downturn," said Ken Schaefer, director of brokerage services at Grubb & Ellis. Other commercial real estate types — retail, industrial and apartments — typically feel the effects sooner of improved consumer confidence and spending, he added.

"There's a certain lag time. The rest of the market has to turn around before (typical office users) regain their confidence and begin hiring again," Dettweiler said. "What we continue to see is uncertainty."

Leasing is the word

Now that a multitude of factors have curtailed buying and selling, not the least of which is tight lending standards, leasing is the name of the game in the office market. Although much of the activity involves companies that are

downsizing, there's a lot of renegotiations of existing leases and renewals of expiring leases.

"The trend is for companies to look at ways to stay lean and mean," said Keith Bandoni of Maestas & Ward Commercial Real Estate. "It's a quick-moving market right now from the standpoint of every deal being different."

In the current let's-make-a-deal environment, landlords and renters maneuver for the best deal possible from their sometimes conflicting expectations, he said. Managing those expectations to get leases done has become a major part of his job as a broker, he said.

"I've got five lease proposals out there totaling 101,000 square feet," Bandoni said. "Whether or not those proposals come to fruition, that's a different story."

Leasing activity has kept the office market moving, although negative moves outweigh the positive moves.

On the negative side, the amount of vacant space climbed from 1.9 million square feet in early 2009 to 2.3 million square feet in the first quarter of this year, which is the largest amount of empty office space that Grubb & Ellis has recorded since 2001, Schaefer said.

The biggest vacancies to occur in the first quarter were:

■ Vaughan Company Realtors, which has filed for Chapter 11 bankruptcy court protection, vacated 38,270 square feet in Academy Office Park as part of a consolidation. The company has since changed its name

to New Mexico Real Estate Associates.

■ Presbyterian Healthcare Services gave up its lease for about 16,000 square feet at 2350 Alamo SE near the airport. The company had leased the space, which was never occupied, about a year and a half ago for a planned office expansion that is no longer necessary, said spokesman Todd Sandman.

Citing plans by Ohio-based Convergys Corp. to close its 60,000-square-foot call center at 6301 Jefferson NE as an example, Mark Hammond of Roger Cox & Associates cautioned, "There's going to be more space that's going to hit the market."

On the positive side of the office market, the amount of occupied space in the metro has held stable at just less than 11.3 million square feet over the past year, according to Grubb & Ellis market data.

The local office market, while hardly robust at a 17.1 percent vacancy rate, continues to hold up a little better than the national picture with its overall 17.9 percent vacancy rate in the first quarter, according to Grubb & Ellis. In the first quarter of 2009, the metro vacancy rate was 14.4 percent compared to 15.6 percent nationwide.

Albuquerque's previous high of a 17 percent vacancy rate in early 2004 resulted from different circumstances than today. The issue back then was the exodus of federal agencies from leased space Downtown to build-to-suit buildings elsewhere in the metro.