

Industrial vacancy rate drags off bottom

■ *8.6% first-quarter figure shows welcome progress from recent 9.5% peak*

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The bottom appears to have been reached in the industrial real estate market.

The vacancy rate for warehouses, manufacturing plants and other types of industrial buildings in the Albuquerque metro area dropped from 9.3 percent at the end of 2009 to 8.6 percent in the first quarter of this year, according to the latest Office Market Trends report by Grubb & Ellis New Mexico.

A year earlier in the first quarter of 2009, the vacancy rate reached what now appears to be a recent peak of a 9.5 percent with nearly 600,000 square feet going empty in the span of three months. The bearish prospects at that time never quite panned out.

The industrial vacancy has been bouncing up and down at around 9 percent since hitting the recent peak. The pattern has been a duel between expansions and downsizings to determine the direction of the market, said Ken Schaefer,

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director of brokerage services at Grubb & Ellis.

"At the end of the first quarter, we eked out a positive," he said.

The opening of a 176,000-square-foot addition to the General Mills cereal plant was decisive in putting the market on positive footing in the first quarter. Built and equipped at a cost of about \$100 million, the plant expansion near Jefferson and Paseo del Norte NE created 60 new jobs.

"Without this project, total space absorbed would have been a negative 20,000 square feet," the Grubb & Ellis report observes.

Clean energy push

Another factor in the drop in vacancy rate was the clean energy sector, which contributed 140,000 square feet of occupied space in the first quarter, the report says. Three established local companies – Affordable Solar Group, Array Technologies and Sacred Power Corp. – and relative newcomer Visible Light Solar Technologies all relocated with net gains in space.

The expansions were bright spots in the metro's otherwise beleaguered manufacturing sector, which has lost 2,100 jobs or nearly 11 percent of its total employment over the past year.

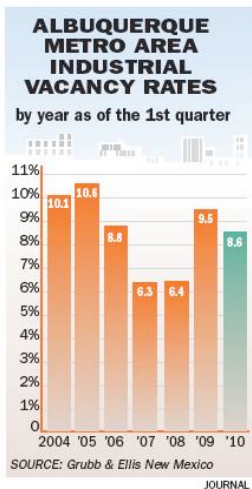
More typical of the manufacturing sector was Los Angeles-based Dunn-Edwards Corp.'s closing of a 71,672-square-foot paint-making plant at 215 Rossmoor SW in the first quarter and consolidating the operation to a newer, larger building in Tempe, Ariz. Dunn-Edwards had inherited the plant when it acquired locally owned Wellborn Paint Co. in 1985.

The planned closing later this year of the General Electric plant at 336 Woodward SE, which has made aircraft engine components since 1967, will add to the woes in the local manufacturing sector, noted Jim Smith of CB Richard Ellis. About 400 workers, many of whom are highly skilled, will be out of work. "It's more downward



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Los Angeles-based Dunn-Edwards Corp. closed its 71,672-square-foot paint-making plant, shown here in the South Valley, in the first quarter.



pressure on jobs," he said.

The most active segment of the industrial market is warehouses and distribution centers, which account for 14.6 million square feet or about 40 percent of all industrial space.

The segment's vacancy rate was 10 percent in the first quarter, higher than the 8.6 percent rate for all types of industrial buildings.

The foremost reason for the higher vacancy rate is the downturn in construction, which has been hemorrhaging jobs since home building began its slide in 2006. Construction employment is at a 10-year low of 21,300 in the metro.

"Two or three years ago, you couldn't find a contractor's yard anywhere north of I-40," said Keith Meyer of Maestas & Ward Commercial Real Estate. "Now I have a couple listings and there's no interest."

Little under construction

The only industrial building under construction in the first quarter was the Southwest Regional Council of Carpenters' 93,686-square-foot union training center at 3900 Pan American NE. The \$12 million project is nearing completion. There's no other new industrial buildings reported in the planning pipeline.

The current lack of new construction contrasts sharply with the 1.5 million square feet of industrial space built in 2006 and 1 million square feet built in 2007, according to Grubb



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The recently completed expansion of Albuquerque's General Mills plant, shown here, from 273,000 square feet to 449,000 square feet was a big plus for the industrial market in the first quarter.

& Ellis data. The metro was going through an economic boom in 2006-07, when Albuquerque Studios, Merillat Industries, Shamrock Foods and Tempur-Pedic International all opened in new industrial buildings.

The metro finished 2007 with an industrial vacancy rate of 5.9 percent, which is flirting with full capacity, said Tim MacEachen of Grubb & Ellis.

"We're pretty well leased up if we get to a 5 percent vacancy rate," he said. "There's a reason why that last 5 percent never gets leased. It's called functional obsolescence."

Construction stopped in 2008, as if someone turned off the faucet for new industrial projects. When the Great Recession began to grip Albuquerque's economy in the second half of 2008, there were not a lot of speculative industrial properties – buildings constructed without tenants lined up first – left stranded by the drop in demand for space.

As a result, the industrial market hasn't seen the double-digit vacancy rates of 2004-05 when overbuilding was an issue. The market, however, hasn't been immune to the financial stress brought about by the recession.

The most dramatic example was Central New Mexico Community College's recent \$10 million purchase of the former Motorola industrial campus, part of which is now leased to

Elkart, Ind.-based CTS, at Alameda and Jefferson NE. The 20-acre campus with two buildings, which had gone into foreclosure, will house programs in CNM's School of Applied Technology.

Average lease rates

The averaging asking lease rate for warehouse space was \$5.47 a square foot in the first quarter, roughly where it was in early 2005. The asking rate is a little more than 13 percent lower than \$6.30 a square foot a year earlier. The asking rate high was \$6.88 in the third quarter of 2008, but it's been tumbling downward ever since.

Among the larger submarkets, the asking rates ranged from \$3.88 a square foot in the Downtown submarket to \$6.35 a square foot in the North I-25 corridor, which straddles Interstate 25 north of the Big I.

The drop in average asking lease rates has helped spur activity in the warehouse segment of the industrial market, the Grubb & Ellis report says. Albuquerque has traditionally been an expensive place to lease warehouse space compared to other cities in the Southwest and beyond, thus some companies are taking advantage of the drop.

"We're dealing with sophisticated buyers and sophisticated tenants," MacEachen said. "They read the papers. When they see blood in the water, they go after the sharp deals."