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Brokers worry about possible double dip recession

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Office vacancy rates climbed to 17.9 percent in the second quarter as Albuquerque underperformed the nation. With the economy teetering on the verge of a double dip recession, an historic 20 percent vacancy rate could be coming.

The second quarter ended with nearly 100,000 square feet of negative absorption for office space, according to **CB Richard Ellis**. At 17.9 percent, the vacancy rate was higher than the nation's, which stood at 17.4 percent, according to New York-based **Reis Inc.**, which crunches vacancy rates for 82 communities. CBRE's forecasters predict that office vacancy rates will linger in the 18 to 19 percent range for the balance of 2010.

"Until we see an increase in jobs, you won't see a decrease in vacancy. We need to fill **Convergys**' 65,000 square feet and **Hewlett-Packard**'s 71,000 square feet, but right now there are no candidates," said CBRE's Terri Dettweiler, a first vice president and office leasing specialist. "Normally, the Albuquerque market heats up in summer, but not this year. Tenants are not hiring and no one is willing to step up and lease space. They are saying 'Give me one more year on my current lease.'"

Convergys laid off 677 in March, when it shuttered its call center at 6301 Jefferson St. NE. H-P shifted employees out of its temporary offices in the North Interstate-25 corridor for its new Rio Rancho headquarters.

Dettweiler noted that after years of stability built on federal jobs, the Duke City is now at the mercy of the national economy.

"If we have a double dip recession, there is a good chance vacancy would climb to 20 percent," she added.

Vacancies also climbed in the industrial sector, to 9.4 percent, and there was 140,000 square feet of negative absorption. In the past three years, industrial vacancies have doubled, with nearly 2 million square feet accumulated. A big part of the problem is the many building material suppliers who have been forced to close or consolidate during the recession, CBRE's report said.

But there is light at the end of the tunnel, according to **Grubb & Ellis New Mexico** Senior Vice President Tim MacEachen, who is "painfully optimistic" about the short-term future. He has five different industrial land deals, ranging from four to 18 acres, that could close by the end of the year as part of the South Valley's Schwartzman industrial rejuvenation.

"We are all in survival mode, and every day you wake up and you've survived, you're one day closer to recovery. I sold the post office in Clovis to the county in the second quarter. It's a small deal, but they all count."

Perhaps the brightest spot in commercial real estate in the second quarter was retail. After getting battered by the recession the past two years, more than 150,000 square feet of positive absorption registered in the second quarter. Vacancies stand at 14 percent, a decrease from 14.71 percent in the first quarter, according to the CBRE report. The company predicts further declines in the vacancy rates in the quarters to come, but cautions that retail is not out of the recessionary woods yet.

Technology changes forced the closings of **Hollywood Video** and **Blockbuster** locations throughout the Duke City, and health care and essential goods stores are propping up the market.

Of the nine stores larger than 10,000 square feet that opened in the second quarter, just one, **La Bella Spa Salon**, was a luxury retailer. The others include three **CVS Pharmacies**, a **Dollar Store** and a **Sunflower Farmers Market**.



Two speculative retail projects under construction are expected to help dampen vacancy. **Peterson Properties** is building **Volcano Point Shopping Center** at Central and 98th Street SW, while **Prime Properties** is building **Venada Plaza** in Bernalillo.

Peterson has signed **AutoZone** and National Quick Serve Restaurants as its anchors.

Venada developer Steve Maestas observed, “Retail is a tale of two cities, if not more. Depending on where you’re at and depending on what product type you have determines how you’re doing. Value-based business are doing well right now.”

Geographically, the Unser corridor is strong, and lease deals are getting done from Rio Rancho south to I-25, added Maestas, who heads the Albuquerque brokerage firm **Maestas & Ward Commercial Real Estate**.

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