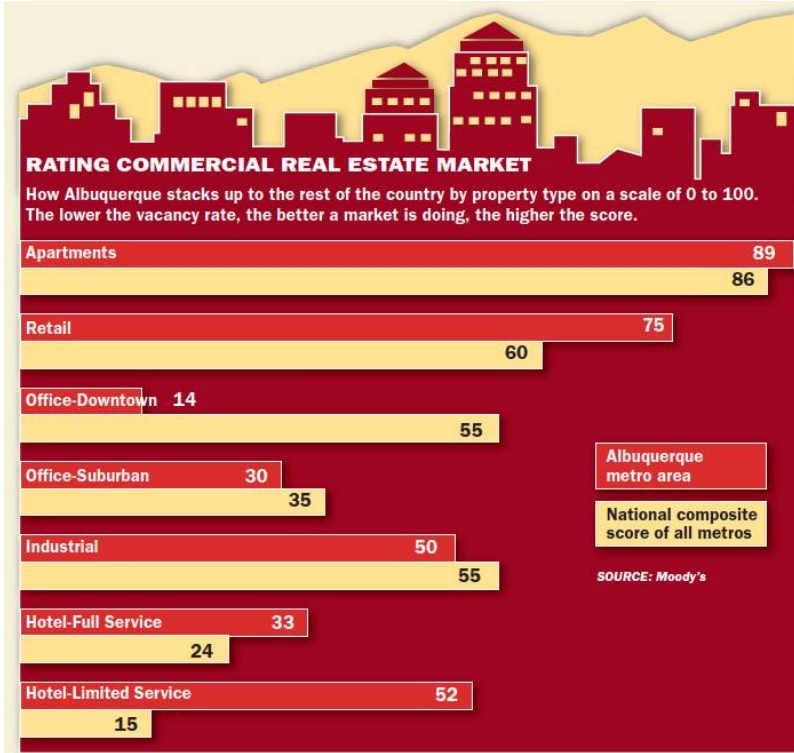


SIGNS OF LIFE

Quarterly report by Moody's ranks Albuquerque among the top 10 healthiest commercial markets with significant improvements from early 2009



Copyright © 2010 Albuquerque Journal

By RICHARD METCALF

Journal Staff Writer

The tide may have turned for the local commercial real estate market.

Showing significant improvement from early 2009 to early 2010, Albuquerque ranks as one of the top 10 healthiest markets in New York City-based Moody's recently released Red-Green-Yellow Update, a quarterly report measuring risk in metros where deals were financed through commercial mortgage-backed securities or CMBS.

"When you look at this, it's remarkable," said developer Paul Cauwels of Cauwels & Stuve Realty and Development Advisors. Referring to other top-ranked metros, he added, "When has our market ever been linked to the likes of Honolulu, New York, Los Angeles and Boston?"

Albuquerque's average score of 57, which includes all commercial property types, was seventh highest among 56 metros ranked by Moody's. The composite score for all cities was 53 on a scale of zero to 100.

A year ago, Albuquerque ranked in the middle with an average score of 34.

But market health is a relative commodity in commercial real estate, which has suffered across the country from the economic slowdown and tightened credit since early 2008.

The Red-Yellow-Green Update generally works like a traffic light from an investor point of view. Green is a go, with any score above 67. Yellow is a caution, anything from 34-66. Red signals high risk, or a score of 33 or below.

Honolulu was the only metro to get an overall green light, while three rust belt cities - Detroit, Trenton, N.J., and Hartford, Conn. - got an overall red light. The remaining 52 metros were in the yellow range, which

See **COMMERCIAL** on **PAGE 6**

Commercial market shows signs of life

from PAGE 1

Moody's describes as "on the cusp of imbalance and ... therefore fragile."

In other words, observed Barbara Haase of Cauwels & Stuve, "Everybody's foundering, we are just less so. I think that's accurate."

John Lewinger, cofounder and principal of Grubb & Ellis New Mexico, said he agreed that Moody's score and ranking for Albuquerque is "relatively accurate." Jim Chynoweth, managing partner of CB Richard Ellis' Albuquerque office, also agreed but with one proviso.

"We're not seeing the improvement from a year ago," he said. "We probably just didn't fall as much as other metros did."

Three areas rated well

Within any given metro's commercial real estate market, any of the seven property types tracked by Moody's can be doing better or worse than the others. As a rule of thumb these days, however, apartments are the least risky property type while hotels carry the highest risk.

In Albuquerque, three property types – industrial buildings like warehouses and assembly plants, limited-service hotels and full-service hotels – were singled out by Moody's for showing significant improvement in risk factor from the first-to-second quarter of 2010. The improvement indicates a better balance between supply and demand from an investment perspective.

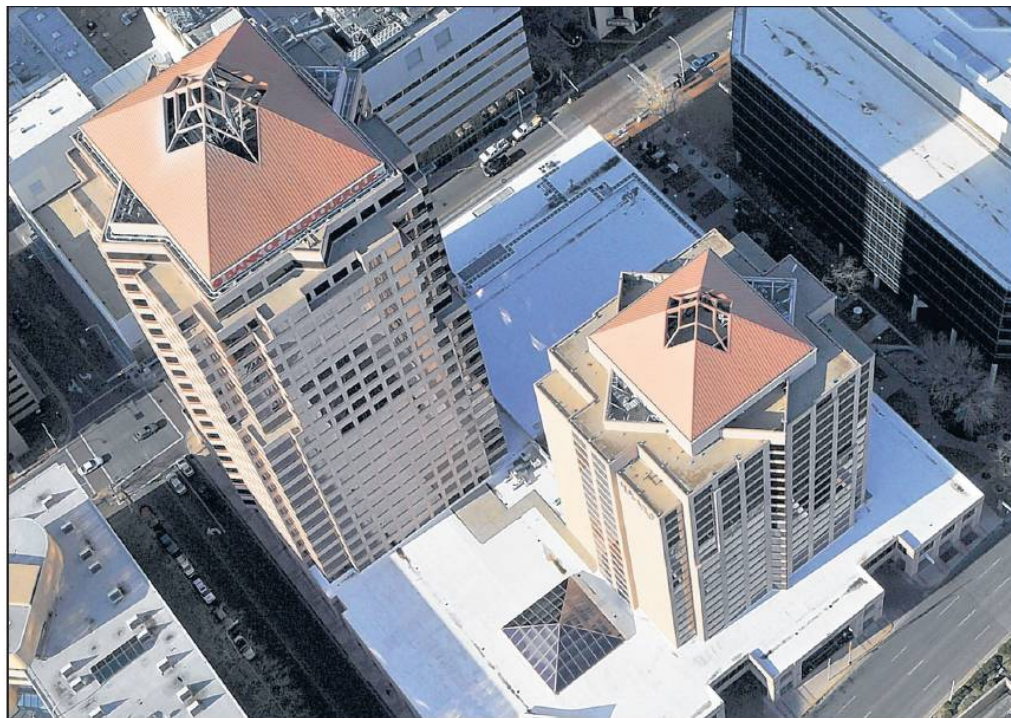
Here's what the three property types did:

- Local industrial real estate jumped from a red score of 19 to a solid yellow 50, which shows some recovery from the one-two punch of downturns in both construction activity and manufacturing. Both are major users of industrial space. The composite score for all 56 metros was 55 in the second quarter.

- Albuquerque saw the most improvement among all metros in the limited-service hotel property type, which went from a red score of 29 into the yellow at 52. The composite score for all 56 metros was a meager 15 in the second quarter, a sign of overbuilding in the past and the worst score of any commercial property type.

The comparatively strong performance of limited-service hotels here is likely due to travel generated by Kirtland Air Force Base, Sandia National Laboratories and all the other federal agencies in Albuquerque, Lewinger said.

- Reflecting a trend across the country, the local full-service hotel property type improved from a 12 to



JOURNAL FILE

Albuquerque's overall commercial real estate market, represented here by Downtown, has been rated one of the least risky for investors in the country by New York City-based Moody's.

33 but stayed in the red, indicating a slight oversupply in the market. Full-service hotels have been hammered by the recession. The composite score for all 56 metros was 24 in the second quarter.

Strong apartment market

Albuquerque's apartment market was one of the strongest in the country in the second quarter with a healthy green score of 89, slightly higher than the nationwide composite of 85.

Apartments are the only commercial property type to achieve a composite green score in the second quarter, largely due to a drop in the overall average vacancy rate from 7.4 percent in the first quarter to 6.5 percent in the second. Only a handful of metros scored in the yellow, while El Paso had the only red score in the country due to an over-supply of apartments.

"We regularly outperform other markets," said apartment broker David Eagle of CB Richard Ellis, citing increases in both overall occupancy and rental rates over the past year.

After apartments, retail is the second-healthiest commercial property type in the country with a composite yellow score of 60 in the

second quarter. The comparatively high score can be attributed to the supply side of the supply/demand ratio: Construction of new retail buildings has virtually disappeared from the national landscape.

At a green 75, the local retail real estate market had the third-highest score of any metro tracked by Moody's in the country. In addition to a lack of new construction, Moody's reported that Albuquerque had the second-biggest drop in retail vacancy rate in the country from the first-to-second quarter.

Although the Red-Yellow-Green Update doesn't specify Albuquerque's drop in vacancy, Ken Schaefer of Grubb & Ellis New Mexico reported that the local retail vacancy rate dropped to 9.8 percent in the second quarter, the first time it's been a single digit since the fourth quarter of 2008.

"The retail market is one of the shining stars of commercial real estate here," he said.

While it's unlikely consumers in the metro are more confident about spending than elsewhere in the country, Lewinger observed, "There's more retailer confidence in our marketplace."

Office still in distress

The office market is where commercial real estate in Albuquerque clearly reveals substantial distress from the economic recession.

Moody's divides the office market into two classifications, central business district or CBD and suburban. Here's how Albuquerque did in the two classifications:

- Downtown had the fourth lowest score of any CBD tracked by Moody's at a red 14, which is a sign of a "significant" lack of demand for the available space. Nationwide, CBD office markets are starting to rebound, with the composite score of 56 metros increasing from a yellow 52 in the first quarter to a yellow 55 in the second.

- The suburban office market in Albuquerque – everything outside Downtown – is a little softer than the country as a whole. The local score of a red 30 trailed the national composite score of a barely yellow 35. Suburban office markets were generally sluggish during the first half of this year.

Moody's analysis of Albuquerque's office market is a little more bearish than other statistics that show the local office market is doing slightly better than the national average.