

Date: Oct 31, 2011; Section: Business Outlook; Page: 1

Industrial vacancies signal weak economy

■ *As more space goes dark, rate climbs to 9.9% in third quarter*

Copyright © 2011
Albuquerque Journal
BY RICHARD METCALF
Journal Staff Writer

More industrial space emptied out during the third quarter in the Albuquerque metro area, reflecting in bricks and mortar the continued sluggishness in the local economy.

About 164,000 square feet of space went dark in warehouses, assembly plants and other blue-collar buildings, pushing the industrial vacancy rate up from 9.4 percent in the second quarter to 9.9 percent in the third, according to Grubb & Ellis New Mexico's latest Industrial Market Trends Report.

"Most of the space that went empty involved companies related to construction, especially single-family home construction," said Ken Schaefer, research director at Grubb & Ellis' Albuquerque office. "It's been a long-drawn shake out."

Residential construction began to decelerate in mid-2007, but it

See **INDUSTRIAL** on **PAGE 20**

Date: Oct 31, 2011; Section: Business Outlook; Page: 20

Industrial vacancies continue to rise

from PAGE 1

wasn't until early 2009 that the slowdown jolted the local industrial real estate market.

Nearly 600,000 square feet went empty in a three-month span, driving up the industrial vacancy rate from 7.5 percent in the fourth quarter of 2008 to 9.5 percent in the first quarter of 2009, according to Grubb & Ellis data. Most of the vacancies were from the downsizing or closing of suppliers to the housing sector.

"The vacancy rate has ticked up and ticked down but hasn't changed remarkably since then," said Tim MacEachen of Grubb & Ellis.

There were 29 lease deals in industrial buildings of at least 10,000 square feet in the third quarter, said Jim Smith of CB Richard Ellis. The metro has averaged 27 to 35 lease deals a quarter for the past two years, which is not a lot of activity for a metro of Albuquerque's size, he said.

"For every one entity expanding, two are contracting," he said.

The median size of the leases was 3,400 square feet, a decline of more than one-third from the median of 5,231 square feet in the second quarter, he said. In addition, the length of the leases is getting shorter, one or two years instead of five, for example.

"There are opportunities," Smith said, referring to the potential to lock in discounted lease rates over the long term in the current renter's market.

"People are not taking advantage of the opportunities because they don't have confidence



JOURNAL FILE

A big vacancy will hit the metro's industrial real estate market when U.S. Foodservice moves into its new distribution center, shown under construction last summer in the South Valley.

Where Albuquerque stands

Albuquerque's 9.9 percent vacancy rate in the third quarter compares to:

- 15.5 percent in Las Vegas, Nev.
- 15.3 percent in Phoenix.
- 14.7 percent in Dallas.
- 13.1 percent in Austin.
- 8.2 percent in Denver.
- 3.1 percent in Los Angeles.

in their business moving forward," he said. "There's an underlying inability or difficulty to forecast what's going to happen from both an economic and political standpoint."

Moving on out

In the third quarter of this year, companies vacating industrial space included a distributor of climate control equipment, a window-and-door supplier and an equipment rental company, Schaefer said.

"It's a sad story," said Rose Cabezut of NAI Maestas & Ward Commercial Real Estate Services. "You see a lot of companies struggling to find ways to make ends meet."

The construction job sector lost 2,700 jobs or 12.4 percent of its labor force over the 12 months ending with September, according to the latest state labor report. The sector has been losing jobs since the beginning of 2007 and is now down to the employment level of September 1993.

Construction employment captures only part of the picture, MacEachen said.

Construction activity ripples across the economy, from the wholesale and retail job sectors to financial and business services.

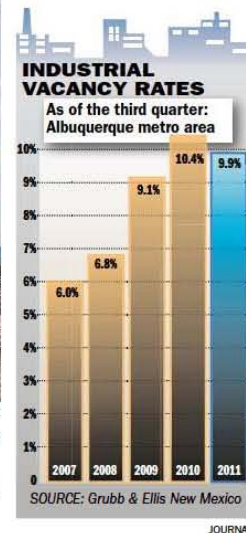
"Nothing has the multiplier from a jobs standpoint that construction has," he said. "It's the heart beat of the economy."

ABQ rate moving up

Albuquerque's 9.9 percent vacancy rate was not far off the national average of 9.7 percent in the third quarter, Santa Ana, Calif.-based Grubb & Ellis reported.

The average vacancy rate nationwide peaked at 10.6 percent in the first quarter of 2010 and has steadily dropped ever since.

In Albuquerque, the vacancy rate peaked at 10.4 percent in the third quarter of 2010, pushed upward by the closing of the 477,000-square-foot General Electric jet engine plant in



the South Valley. The rate dropped back down to 9.1 percent early this year after the plant was torn down.

Since then, the local vacancy rate has been on an upward trajectory. In the third quarter, Albuquerque was among 16 metros showing increased vacancies out of 33 markets tracked by Grubb & Ellis.

Near-term prospects for the local industrial market don't look good.

Chicago-based U.S. Foodservice is expected to move into its new company-owned distribution center in the South Valley in the fourth quarter, vacating 144,954 square feet of leased space in the North Valley. The vacated leased space will contribute to an increase in Albuquerque's overall vacancy rate.