

Office vacancy rate climbs in third quarter

The vacancy rate for office space in the Albuquerque metro area climbed to 15.1 percent in the third quarter from 14.1 percent in the second, according to the latest Office Trends report by Grubb & Ellis New Mexico.

The increase can be blamed mostly on two moves:

- The University of New Mexico vacated about 87,000 square feet in University Towers at 1650 University NE in order to relocate University Hospital's back-office operations to a UNM-owned building at 933 Bradbury SE.

- Virginia-based ValueOptions closed its 32,000-square-foot office in Uptown after losing the contract to manage all state-funded behavioral health care.

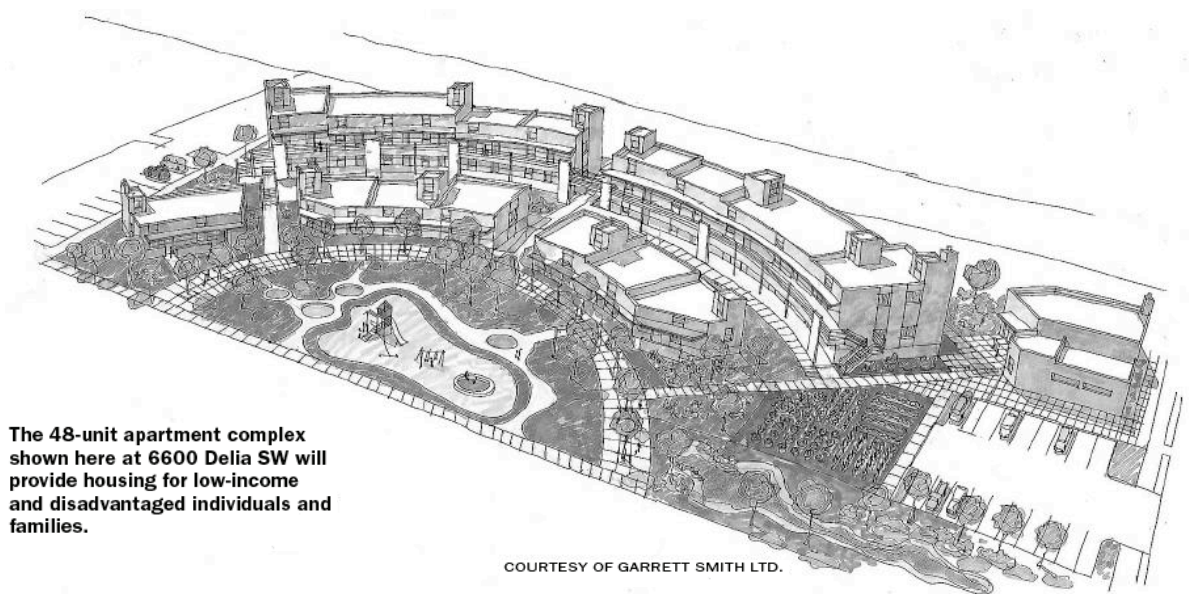
"Discounting those two big moves, the vacancy rate held stable," said Ken Schaefer, director of brokerage services at Grubb & Ellis.

For comparison, the national vacancy rate was 17.1 percent for office space in the third quarter, a half of a percentage point increase from the second quarter, according to an update from Grubb & Ellis' Chicago headquarters. The highest office vacancy rates were 26.3 percent in Phoenix and 24.4 percent in Detroit.

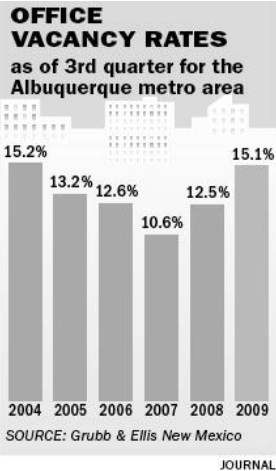
While Albuquerque is doing better than the nation as a whole, the 2.4 million square feet of empty office space in the third quarter – the equivalent of 50 football fields – is a record amount of office vacancies in the metro. The next highest amount was 2.14 million square feet sitting empty in the first quarter of 2004, according to Grubb & Ellis statistics.

The office vacancy rate had actually dropped earlier this year, from 14.4 percent in the first quarter to 14.1 percent in the second, before the most recent jump to 15.1 percent in the third quarter. The Grubb & Ellis report observes that the office market "is having trouble making up its mind where it wants to go."

There are still lease deals getting done, although many involve existing companies consolidating their operations into smaller spaces. A major factor is the economic recession's effect on employment.



The 48-unit apartment complex shown here at 6600 Delia SW will provide housing for low-income and disadvantaged individuals and families.



"Negative job growth levels around minus 2.5 percent are dramatically inhibiting companies from seeking larger spaces," the report says.

Office lease rates are holding up better here than around the country. The average asking lease rate for Class B office space – by far the most common type in the metro – was 2.6 percent higher in the third quarter compared to a year earlier. Nationwide, the average asking lease rate for Class B space dropped 3.7 percent over the same period.

It should be noted that lease rates for Class B space in Albuquerque, currently in the \$18 a square foot range, consistently rank among the

Commercial Real Estate



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lowest in the country.

\$7.7 million housing project

Albuquerque-based NewLife Homes has overcome a host of financing barriers to begin construction of a \$7.7 million housing project for low-income and disadvantaged people at 6600 Delia SW.

The project will consist of 48 one- and two-bedroom apartments and a community center totaling 34,000 square feet in 10 buildings. Fourteen of the units will be set aside for households making 30 percent of the median income, with priority given to persons with special needs or who have been homeless. The remaining units will be set aside for households making 50 percent of the median income.

The nonprofit NewLife Homes secured federal Low-Income Housing Tax Credits to help finance the project in 2006 and 2007, but executive director John Bloomfield said investor demand for the

tax credits collapsed in late 2007. Like other similar tax credit housing projects, it stalled.

The American Recovery and Reinvestment Act created the Tax Credit Exchange Program to help low-income housing projects cash in on their tax credits through grants issued by the Treasury Department. NewLife was awarded a grant in June through a competitive application round.

Federal tax credits are only part of the financing picture. The project's multiple funding sources include bond money from Albuquerque's Workforce Housing Opportunity Act, the Department of Housing and Urban Development's Continuum of Care Homeless Assistance Program, New Mexico Mortgage Finance Authority, McCune Charitable Foundation, Frost Foundation, United Way of Central New Mexico and the Bank of Albuquerque.

Designed by architect Garrett Smith Ltd., the project will seek certification from the U.S. Green Building Council's Leadership in Energy and Environmental Design program. The general contractor is Gerald Martin.

Donor Services breaks ground

New Mexico Donor Services, which provides organ and tissue recovery services, has broken ground

on a 15,556-square-foot office building at 1509 University NE.

The \$2.8 million project has been in the works for three years, most recently being delayed about nine months out of concern for the economy, said executive director Pat Niles. Now that the economy shows signs of stabilizing, not to mention the nonprofit's dire need for more space, the decision was made to proceed with construction.

"We've had a 42 percent increase in activity this year," she said. "We've been trending like that for five years."

A subsidiary of Nashville-based Dialysis Clinics Inc., NMDS currently occupies 4,500 square feet at Broadbent Business Park, where it's been for the past 15 years. Its staff of 28 works with the medical community and with donor families to provide organs and tissues to people awaiting transplants.

NMDS originally wanted to purchase an existing building near University Hospital and Presbyterian Hospital, where it does a lot of referral-based activity. "None met our needs," Niles said.

Its commercial real estate representative, Dave Hill of Maestas & Ward Commercial Real Estate, learned the vacant site on University NE was available but not on the market, she said.