

# Industrial real estate continues to slump

**T**he industrial real estate market continues to loosen up due to flagging consumer and corporate spending.

The vacancy rate for buildings like warehouses and assembly plants edged up from 8.9 percent in the second quarter to 9.1 percent in the third, according to the latest Industrial Trends report by Grubb & Ellis New Mexico. A year ago as of the third quarter, the vacancy rate was 6.8 percent.

The industrial market is basically going through a purge of "weak hands," or companies whose products aren't moving and thus are downsizing or closing, says the report's analysis. Particularly hard hit are companies in the construction sector.

Albuquerque's industrial market is doing a little better than the country as a whole. The average vacancy rate nationwide was 10.4 percent in the third quarter, a 15-year high according to Grubb & Ellis' Chicago headquarters.

Albuquerque's most recent high for industrial space was 11.2 percent four years ago. The 2005 high resulted from overbuilding, while the current climb in vacancy rate is due primarily to economic hardship.

The only industrial construction project currently under way is the Southwest Regional Council of Carpenters' \$12 million training center at 3900 Pan American NE off Comanche, according to the Grubb & Ellis report. The 93,686-square-foot building is classified as "flex" or flexible space – it looks like an office but can be used for more industrial purposes.

A big factor in the metro's growing vacancy rate is the amount of sublease space available in the industrial market. About 350,000 square feet of sublease space has opened up during the past year, pushing the total to 529,000 square feet as of the third quarter, said Grubb & Ellis' Ken Schaefer.

The majority of the sublease space is warehouses tied to the beleaguered construction sector, which once made up an estimated 15-18 percent of the local economy. The sector includes not just contractors of all types but suppliers of material, equipment and other support services.

The industrial market is "not likely to improve until single-family home construction rebounds – until the mid to upper end of the residential market improves," Schaefer said.

One short-term boost to the industrial market during the third quarter was Wal-Mart's roughly 3½-month lease of an otherwise vacant 54,318-square-foot warehouse at 1820 Bellamah NE while one of the national retailer's stores was remodeled, according to Tom Franchini of Grubb & Ellis. The



COURTESY OF GRUBB & ELLIS NEW MEXICO

**Wal-Mart temporarily occupied this 54,318-square-foot warehouse at 1820 Bellamah NE during the third quarter, thus giving a short-term boost to the vacancy rate for industrial space.**



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**Beck Total Office Interiors, which was originally founded in Albuquerque in 1983, is subleasing about three-quarters of its building at 5300 Eagle Rock NE, shown here, to visible Light Solar Technologies.**

building will return to vacant status in the fourth quarter.

The inevitable result of the increasing industrial vacancy rate is a more than 15 percent drop in the average asking lease rate to \$6.68 a square foot in the third quarter from a year earlier, according to the Industrial Trends report. Nationwide during the same period, the average asking lease rate dropped 6.7 percent to \$5.34 a square foot.

Dropping lease rates are good news for tenants.

"The window of opportunity to take advantage of low rates, abundant landlord concessions and a growing amount of vacant spaces has clearly opened up," the report says.

"Landlords are beginning to see tenants aggressively shop for

competitive bids in order to achieve better renewal rates," it continues. "When moves are being made they are typically lateral or into smaller spaces."

## Beck subleasing ppace

Beck Total Office Interiors is subleasing 32,500 square feet to Visible Light Solar Technologies at its 40,700-square-foot building at 5300 Eagle Rock NE.

Founded in Albuquerque as Beck Office Systems in 1983, the company was bought by Tempe, Ariz.-based Reconditioned Systems Inc. in 2003. The combined operations now trade under the name of Beck's Total Office Interiors.

The company, which sells office furnishings and partition systems, is

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**RICHARD METCALF**  
Of the Journal

keeping about 8,000 square feet for its retail and wholesale operation. The vacated space resulted from a consolidation of the company's manufacturing and refurbishing to Tempe, Ariz., a couple years ago.

Publicly traded Reconditioned Systems is suffering during the economic recession, reporting a loss of \$99,000 on sales of \$2.7 million in the quarter ending June 30. In his earnings report, board chairman Scott W. Ryan said the 22-year-old company "had the worst quarter in my memory. This will make being profitable this fiscal year very difficult."

The sublease was a Maestas & Ward Commercial Real Estate deal, with Dave Hill and Keith Bandoni representing Beck and Karen Hudson representing Visible Light Solar.

## Costume fundraiser on tap

NAIOP The Real Estate Development Association is hosting the Hollywood Casino Night Costume Fundraiser on Friday from 6:30-10:30 p.m. in the ballroom of the Sheraton Uptown.

Organized by Josh Skarsgard, chair of NAIOP's philanthropy committee, the fundraiser is for the Children's Cancer Fund of New Mexico.

"Funds raised by the event will be earmarked for the acquisition and rehabilitation of an existing apartment or home where CCFNM can house families from outside the city while their children are receiving cancer treatment," Skarsgard said in an e-mail. "The cost of staying in hotels can be an overwhelming burden on these families."

The event will have a casino theme with music by the cover band Vanilla Pop. A life auction and raffle will be the chief source of proceeds. Costumes are encouraged, but not required, because the event is the day before Halloween.

At the end of last week, just over a 100 people had signed up to attend. The event will be promoted at today's NAIOP luncheon meeting.

Richard Metcalf covers commercial real estate for the **Journal**. You may reach him at 823-3972 or [rmetcalf@abjournal.com](mailto:rmetcalf@abjournal.com).