

Recession waylays commercial real estate

Rising unemployment and reduced consumer spending, which are two hallmarks of the economic recession, have taken the wind out of the sails of commercial real estate, according to a panel discussion held last week.

Vacancy rates are rising, while property values and rental rates are falling both here and around the country. A substantial turnaround could still be years away.

The forecast a year ago was for the turnaround to begin in the spring of 2010, noted John Ransom of Grubb & Ellis New Mexico, moderator of this year's office and industrial market update for the New Mexico chapter of NAIOP The Commercial Real Estate Development Association.

Given the economic uncertainties, last year's forecast of a turnaround will certainly be wrong, he said. Adding that it could be another year before the picture becomes clearer when the market rebounds, Ransom quipped, "That'll be a good reason not to miss next year's market update."

Approximately 380 people attended the Nov. 16 update presented each year by local members of the Society of Industrial and Office Realtors at the Albuquerque Marriott. There are only 18 commercial real estate brokers in New Mexico with the SIOR professional designation.

The opening speaker was Suzanne Mulvee, senior economist at Property & Portfolio Research Inc. of Boston, who presented a national perspective of the office and industrial markets.

With 7.2 million jobs lost and one out of every 10 Americans unemployed as of November, she said, "We need to get those jobs back in order to get our buildings filled."

But a jobless recovery is likely over the next two years, she said. The financial services sector, traditionally



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Commercial real estate in Albuquerque, illustrated here by the Uptown hub, is suffering from a somewhat milder dose of rising vacancies and dropping rents than much of the rest of the country.



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Advent Solar, which moved into this building in late 2006, was the first company to move to Mesa del Sol and is now the first company to leave the master-planned community.

Commercial Real Estate



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a major user of office space, isn't expected to recover its lost jobs until after the end of 2013. As a result, landlords are going to have to look at other job sectors for potential tenants to fill their buildings, she said.

Reduced consumer spending plays out in commercial real estate with the demand for warehouse

space to stock sales inventory. Many retailers were caught by surprise when "retail sales fell off a cliff last October (2008)," Mulvee said. Since then, retailers have gone through an inventory correction, which has generally meant reducing their need for warehouse space.

"This year, shelves won't be as full," she said.

During her presentation, Mulvee had a funny, although somewhat awkward, moment when addressing supply and demand for warehouse space.

"Construction will stay down for a while - that's good news," she said in a comment that triggered grumblings from the audience.

"That's right," she

continued in a thinking-out-loud kind of way. "I'm talking to developers. It's good news for building owners."

While buying and selling commercial real estate is down, refinancings continue on existing loans coming due. Often, it appears property owners need cash to bridge the gap between the more lax lending standards in the past and the more stringent standards of today.

"Writing a check at refinancing to keep a building is becoming more common," Mulvee said. "We're seeing a lot of keys coming back."

From a local perspective,

commercial real estate in the Albuquerque metro area is suffering from many of the problems seen nationwide but is generally holding up better, said local panelists Jim Smith of CB Richard Ellis and Debbie Harms of Maestas & Ward Commercial Real Estate.

The vacancy rate for industrial space is expected to increase from 9.1 percent in the most recent third quarter to 9.5 percent in 2010. The average industrial vacancy rate over the past 10 years is 8.6 percent.

"In the last four quarters, the industrial vacancy rate has about doubled," Smith said. "The rate will grow as job loss grows."

The vacancy rate for office space is expected to increase from 15.1 percent in the third quarter to 15.7 percent in 2010. The average office vacancy rate over the past 10 years is 13.9 percent.

"No one needs more space for less jobs," Harms said.

Increases in vacancy rates put "downward pressure on asking lease rates," she said. The average asking lease rate for office space is expected to drop from \$17.30 a square foot in the third quarter to \$16.75 a square foot in 2010. The lease rates do not reflect the trend of landlords offering free tenant improvements and free rent as incentives,

See **RECESSION** on **PAGE 8**