ABQJournal Online » A long road back

ABQ Uptown provides a representation of a challenging retail scene. (JOURNAL FILE)

Real estate development, once one of the economic engines in the Albuquerque metro area, faces tough years ahead as the jobless recovery from the Great Recesssion plays out, according to industry insiders.

“We should all be cross-training,” said Bob Murphy, a veteran developer who has since moved on to become executive director of the nonprofit Economic Forum. “Some of us in this room will not be in this business in five years because there’s no demand.”

Albuquerque has experienced 31 straight months of job losses, with construction employment down to its lowest level since mid-1993, according to state labor statistics. New Mexico as a whole ranks last among states in terms of job growth.

“Those of us in development created space,” Murphy said. “Nobody needs more space.”

Murphy was one of more than 20 participants in a series of panel discussions and individual presentations at the “Recovery 101″ seminar held at the Albuquerque Marriott in Uptown by NAIOP, the commercial real estate development association. About 150 people attended the seminar.

The gloomy employment picture hangs heavy over commercial real estate in general, but is particularly hurtful to development of new projects. There’s enough vacant office and industrial space out there to absorb job growth from an economic rebound for years to come.

One fundamental way to generate jobs is to attract outside companies to expand or relocate to Albuquerque, which has been the traditional emphasis of the state’s economic development activity.

Just when the state should be stepping up its economic development efforts to create jobs, seminar participants talked about how New Mexico was falling behind neighboring states.

“We’ve been getting worse while they’ve been getting better,” said Mark Lautman, an author and veteran economic developer in New Mexico.

In a ratio of economic development deals to total state population, New Mexico is falling behind its neighboring states, he said. In contrast, Texas is getting its fair share of deals, while Arizona and Colorado are improving from economic doldrums. New Mexico’s ratio is getting worse.

“Are there great success stories out there? Frankly no,” Murphy said. “Texas just kicks our ass.”

During another presentation on how the capital city of Texas has fared during the recent recession, Austin commercial real estate broker Jerry Heare showed a list of 14 cities identified as Austin’s main competition in attracting business expansions and relocations. Albuquerque was not on the list.

The housing bellwether

Housing, not commercial real estate, will be the better bellwether of turnaround in the local economy, said local developer Paul Silverman of Geltmore LLC.

“Residential (market) got us into this mess,” he said, referring to the mortgage meltdown that began in mid 2007. “Residential has led the way out of every recession in the past.”

The metro’s housing market peaked in 2005, when a record 12,796 existing single-family homes were sold and permits were issued for a record 8,818 new homes. The median sales price for a single-family home shot up 34 percent from 2004 to 2007. Foreclosures were rare.

The housing market is a much different ball game today.

Home building is down 86 percent from the construction peak in 2005. The median sales price has dropped about 16 percent from the peak value in 2007. One out of every 173 homes in the metro is in some stage of the foreclosure process.

“People say we’re in a housing recession,” Silverman said.”We’re in a housing recovery from something that was just absurd. Prices need to drop another 10 percent to get back to the long-term trend line.”

If home prices continue to drop and the job market continues its painfully slow improvement, the housing market could see more robust buying by next spring, he said.

Overcompensation

The lax lending standards that fueled the real estate bubble in the mid-2000s has been replaced by underwriting geared to covering worst-case scenarios, according to a panel discussion on the availability of financing for the commercial market.

“The ‘what if’ factor is what we’re talking about,” said Brian McKelvey, commercial loan officer at Los Alamos National Bank. “What if the moon falls out of the sky and lands on Albuquerque?”

While prospective buyers of commercial property don’t have to provide a contingency plan for the moon crashing on top of their building – McKelvey was joking – they do have to disclose far more information than they did five or six years ago in order to get financing.

Financing is much more available now than what it was in 2008 – the year of the credit freeze – when Rio Rancho lured Hewlett-Packard Co. to open a 218,000-square-foot customer and technical support center in the city, said Ben Spencer, CEO of Titan Development Co.

“We had one bank turn us down because they didn’t want to take on the credit risk of H-P,” he said about efforts to finance construction of the Hewlett-Packard building.

Palo Alto, Calif.-based Hewlett-Packard is a publicly traded Fortune 500 company that’s been around for more than 70 years. The company had signed a 15-year lease for the Rio Rancho building.

The combination of H-P’s long standing and its 15-year lease would normally be a no-brainer for financing Titan Development’s construction of the new building. But “normal” is arguably not a word that describes financial markets during much of the last decade.

Conservative lending

While financial markets are loosening up, lenders are very particular and conservative about the kinds of deals they are willing to finance.

“That’s one of the problems,” said Michael Kelly, president of Q10 Realty Mortgage & Investment Co. “Everybody wants the same thing.”

For example, demand is strong for a leased-up Class A office building in a major city on either coast. In a third-tier metro like Albuquerque, a good example of an attractive property might be a shopping center with long-term leases and anchored by a grocery store.

The key is to match a given commercial real estate project or deal with the financing priorities of a given lender.

“Lenders lend in their comfort zone,” Spencer said. “If your project doesn’t fit into their comfort zone, it won’t work.

“It’s a matter of sorting through lenders and determining where their sweet spot is.”

What is hot

In general, however, apartment complexes and to a lesser extent hospitality properties – motels, hotels and resorts – are considered the hottest investment properties right now.

Apartments are a major component of the housing picture, so a decline in home buying typically leads to an increase in renting, thus making apartments an attractive investment. In addition, apartments are agile in responding to shifts in a local economy because they deal in short-term leases.

Industrial properties, particularly warehouses and distribution facilities, are also expected to gain status as an attractive investment. The reason is simple and based on the role that warehouses play in the supply chain.

“Our consumer society will always need the distribution of product,” said Tim With of Grubb & Ellis New Mexico.

The retail markets, represented here by the shops at ABQ Uptown, face future challenges due to changes in the way business is done in an increasingly impersonal, technology-driven age.

The retail real estate market has been coping with the increasing popularity of Internet shopping. While storefronts won’t disappear from the landscape, many retailers will find that they don’t need very many of them.

“There is a huge paradigm shift in what retail is becoming,” said Gary Sapp of Hunt Development Group.

For some companies, large offices will no longer be needed as workers become more mobile through the use of telecommunications.

“Jobs that are results-oriented – management by objectives instead management by observation – are going to increase,” said Terri Dettweiler of CB Richard Ellis. “If it’s mobile, it’s not location specific. If it’s not location specific, it’s not commercial real estate.”

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