

## RENTAL ROLLBACK

### Empty office space spurs real estate firm to trim asking lease rates

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In a move likely to shake up the local office market, Santa Fe-based BGK Group, the biggest owner of office properties in Albuquerque, has dropped its asking lease rates at some of its office buildings here in a short-term strategy to boost occupancy.

BGK's rent reduction is a sign of the times in commercial real estate, where the new emphasis is on maintaining or improving occupancy rather than charging aggressive rents.

BGK officials did not respond to repeated requests for information on the rent reductions, which were announced at the November meeting of the local chapter of the Leasing Information Network. But one of its leasing agents explained the move.

"They (BGK officials) said, 'We're not going to hold out for higher rental rates. Let's fill these vacant spaces with tenants and get through this rough patch in the economy,'" said Scott Throckmorton of Argus Investment Realty, which represents five of BGK's buildings with rent reductions in Albuquerque.

Based on Argus' listings, BGK dropped rents from 17 percent to 22 percent through February. The 20 local office buildings listed on BGK's Web site are all Class B properties or better. A majority of them have reportedly had their lease rates lowered.

Asking lease rates have held comparatively stable in Albuquerque, although landlord concessions such as free rent or tenant improvements have become common, said Ed Anlian of Sperry Van Ness/Walt Arnold Brokerage Inc. Elsewhere in the country, rents are dropping, dramatically so in some markets, he said.

When he heard of BGK's move at the LIN meeting, Anlian said he thought, "Wow, this is the first chink in the armor here. Rates are going to take a hit."

The recession's impact on commercial real estate is the obvious reason for BGK's move. The vacancy rate was 15.1 percent for the local office market in the third quarter, according to Grubb & Ellis New Mexico. While high, the rate is not particularly alarming. The most recent peak in the office vacancy rate was 17 percent in the first quarter of 2004.

This time around, however, the high vacancy rate results almost entirely from economic stress rather than overbuilding, Throckmorton said. "You're not seeing a lot of business formations right now," he said. "You're not seeing a lot of businesses hiring." A key to BGK's strategy is luring existing companies with expiring leases into its properties, he said. The current landlords of those companies with expiring leases would have a hard time matching BGK's reduced rates, he added.

With Argus' BGK listings, one property is 29 percent vacant while the other four are in the vicinity of the overall market's vacancy rate of 15.1 percent, Throckmorton said. The goal is to get the vacancies down to 10 percent.

Here's a look at each of Argus' listings:

The nine-story, 96,155-square-foot Citadel Building at 6301 Indian School NE saw its rate reduced from \$18 to \$15 a square foot.

The six-story, 95,477-square-foot Uptown Building at 6100 Uptown NE saw its rate reduced from \$19.50 to \$16.

The four-story, 46,642-square-foot Metro Center at 1720 Louisiana NE saw its rate reduced from \$16.50 to \$13.

The three-story, 60,716-square-foot Sycamore Plaza at 5600 Wyoming NE saw its rate reduced from \$17.50 to \$14.50.

The two-story, 53,105-square-foot Seagull Office Plaza at 5801 Osuna NE saw its rate reduced from \$16 to \$12.50.

Just for comparison in areas where BGK owns property, the average asking lease rate for Class B space in Uptown was \$18.77 a square foot in the third quarter, according to Grubb & Ellis. The average asking rate in the Far Northeast Heights was \$20.12 a square foot.

BGK, which has a management office in Albuquerque, was launched in 1991 to take advantage of the fire sales in commercial real estate during an extremely down market in the early 1990s. The sales primarily involved properties tied up in the savings-and-loan collapse and were conducted by the Resolution Trust Corp., which was created by the federal government.

By 1995, BGK was a heavyweight in Albuquerque's commercial real estate market, typically buying a property and holding it for 5 to 10 years before selling it. At one time or another, it seems BGK has owned most of the office buildings with any merit in Albuquerque.

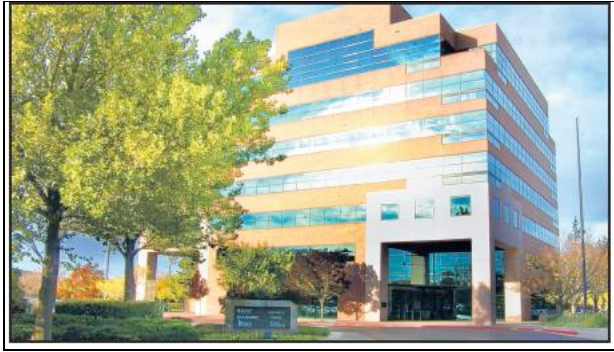
"They're a big player," Anlian said. "We need to get the word out to other landlords about this reduction in lease rates."





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Commercial office space in Albuquerque is in the doldrums.

JOURNAL FILE Commercial office space in Albuquerque is in the doldrums.



**COURTESY OF ARGUS INVESTMENT REALTY** BGK Group, the biggest owner of office properties in Albuquerque, has dropped its asking lease rate at the Uptown Building, shown here at 6100 Uptown NE, by 18 percent.



**COURTESY OF ARGUS INVESTMENT REALTY** BGK Group has dropped its asking lease rate at Seagull Office Plaza, shown here at 5801 Osuna NE, by 22 percent.