

Grubb & Ellis|New Mexico Research



Rio Rancho's Growth Poised to Soar

"Vacancy Rates Are Much Lower in Rio Rancho"

In 1961 approximately 55,000 acres of land were purchased northwest of Albuquerque for ten million dollars. This area is now the City of Rio Rancho. The company that purchased the land was based in New York City and wanted to invest its excess profits generated from a successful mail order rose business. This company, known as AMREP, subdivided the property into tens of thousands of lots and sold them using their proven mass marketing and mail order techniques. During the 1960's and 70's, over 77,000 lots were sold in one half and one acre lots to thousands of absentee property owners. The lot prices were \$795 for a half acre and \$1,495 for a full acre. AMREP retained 25 percent of the acreage for future development. AMREP then purchased an additional 35,000 acres of King Ranch land in 1970. By 1975, AMREP stopped mail order land sales and started on housing and commercial developments in Rio Rancho.

Contents

- Executive Summary 1
- Office 2
- Retail 3
- Multi Housing 4
- Industrial 5

Over the last 25 years, the City of Rio Rancho has been one of the fastest growing cities in the Southwest on a percentage growth basis. Since 1980 the Rio Rancho population has increased by 650 percent or 65,000 new residents. The current population is estimated at 75,000 and growth is expected to continue. Single family housing permits have increased every year by at least 40 percent for the last three years. This growth is being fueled by large quantities of vacant land available for development by both the private and public sectors.

The City of Rio Rancho is developing a 160 acre, pedestrian-friendly site called City Centre. The new City Centre site, located near Unser Blvd. and Paseo Del Volcan Rd., will be the home of a new Events Center and City Hall. The 6,500 seat Events Center is slated to open by October 2006 while the 60,000 square foot, four story, City Hall building will be ready by June 2007. The University of New Mexico is also considering a west side campus adjacent to the City Hall site. One major benefit of the new City Centre site is that city planners were able to start fresh from a large tract of undeveloped land, allowing the city to carefully plan for infrastructure, transportation, and roadway needs.

From a commercial real estate perspective, Rio Rancho is experiencing very high demand from both developers and tenants across all product types. Vacancy rates in Rio Rancho are some of the lowest in the Albuquerque Metro area. Rio Rancho's industrial vacancy rate may be one of the lowest in the country and has remained below one percent for the last three quarters. Rio Rancho's office vacancy rate in the second quarter was 6 percentage points lower than the overall market vacancy rate while the Rio Rancho retail vacancy was 3.5 points lower.

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Ken Schaefer
Director of Brokerage Operations
Grubb & Ellis|New Mexico
2400 Louisiana Blvd NE
Bldg 1, Suite 300
Albuquerque, NM 87110
Phone: 505.883.7676
Fax: 505.883.1034
E-mail: ken.schaefer@grubb-ellis.com
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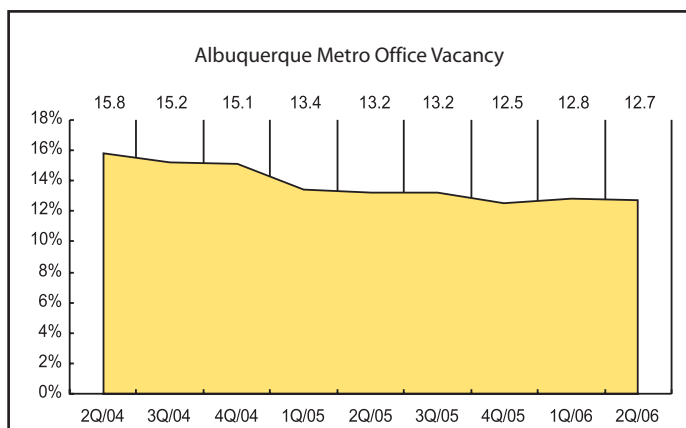
Office Market Trends

Uptown Area Becoming Hot

Overall the office market remained stable in the second quarter as the vacancy rate remained virtually unchanged. The majority of activity occurred in Class B buildings primarily in the Uptown area. Interest in the Uptown submarket has been increasing over the last six months with improved access to Interstate 40 and new retail amenities in Uptown. The recent completion of the Louisiana and Interstate 40 overpass has provided quick, easy access to and from the area. In addition, the fall completion of ABQ Uptown, a 170,000 square foot retail lifestyle center with major new retailers like Pottery Barn, Coldwater Creek, Jos. A. Banks, Elephant Bar and Marcello's Steaks will offer office tenants new retail experiences.

The Uptown area appears to be gaining interest away from the popular North I-25 submarket which may have reached its crescendo. Over the last two quarters of 2005, the North I-25 submarket experienced positive absorption of almost 67,000 square feet. Compared to the first two quarters of 2006, it has seen positive absorption of only 9,600 square feet. Increased traffic flows during rush hours and higher asking rates are making it more challenging to lease office space in the North I-25 area. New North I-25 office projects with asking rates higher than most Class A buildings may have to increase concessions to remain competitive. These higher asking rates are mostly due to the increases in construction materials and rising interest rates.

Look for the Downtown submarket to see increased activity throughout the end of the year. Excluding higher priced new construction in the North I-25 submarket, opportunities are present for office tenants requiring large, contiguous spaces, at affordable rates. The US Immigration Service center taking the remaining Qwest Communications vacated space Downtown could be the start of similar moves.



By Submarket (All Classes)	Total SF(1)	Vacant SF(2)	Vacant %	Net Absorption		Under Construction(3)	Asking Rent(4)	
				Current Qtr.	Year-to-date		Class A	Class B
CBD (Downtown)	2,717,338	541,312	19.9%	4,872	(57,234)	-	\$18.40	\$14.03
Airport	1,221,792	261,672	21.4%	(5,103)	12,420	-	-	\$13.39
Cottonwood	-	-	-	-	-	55,000	-	-
Far NE Heights	931,867	79,165	8.5%	2,277	(554)	68,038	-	\$16.86
North I-25	2,844,533	252,339	8.9%	5,397	9,611	163,948	\$20.50	\$16.32
North Valley	16,600	-	-	-	-	-	-	-
Northeast Heights	784,230	101,032	12.9%	(16,793)	(14,863)	-	-	\$14.98
Rio Rancho	284,019	19,139	6.7%	2,146	8,339	-	-	\$16.25
Southeast Heights	582,050	26,322	4.5%	4,190	2,787	-	-	\$18.50
University	978,333	72,095	7.4%	(16,353)	(16,180)	-	-	\$13.50
Uptown	1,784,449	183,384	10.3%	36,865	22,473	-	\$20.24	\$16.91
West Mesa	296,280	40,217	13.6%	3,786	14,430	-	-	\$18.70
CBD (Downtown)	2,717,338	541,312	19.9%	4,872	(57,234)	-	\$18.40	\$14.03
Suburban	9,724,153	1,035,365	10.6%	16,412	38,463	286,986	\$20.29	\$16.02
Total	12,441,491	1,576,677	12.7%	21,284	(18,771)	286,986	\$19.23	\$15.41
By Class (All Submarkets)							Available for Sublease	
Class A	1,382,104	188,011	13.6%	-	(68,340)	-	3,900	20,000
Class B	7,756,417	969,586	12.5%	46,694	62,725	286,986	5,264	91,688
Class C	3,302,970	419,080	12.7%	(25,410)	(13,156)	-	7,000	18,659
Total	12,441,491	1,576,677	12.7%	21,284	(18,771)	286,986	16,164	130,347

(1) Inventory includes multi-tenant and single tenant buildings with at least 10,000 sq. ft.

(2) Vacant space includes both vacant direct and vacant sublease space.

(3) Space under construction includes speculative and build-to-suit for lease projects.

(4) Asking rates are per square foot per year, full service. Rates for each building are weighted by the size of the building.

Retail Market Trends

By Submarket (All Product Types)	Total SF(1)	Vacant SF(2)	Vacant %	Net Absorption		Under Const. SF(3)	Asking Rent(4) Neighborhood	Power
				Current Qtr.	Year-to-date			
Downtown	580,978	140,147	24.1%	10,832	15,708	-	-	
CBD Total	580,978	140,147	24.1%	10,832	15,708	-	-	
Cottonwood	3,540,862	185,986	5.3%	-	38,397	126,763	\$11.40	\$21.50
Far Northeast Heights	3,520,674	180,545	5.1%	4,552	93,323	133,009	\$11.89	
North I-25	2,944,850	82,204	2.8%	1,950	166,077	15,930	\$12.24	
North Valley	737,168	75,511	10.2%	(1,700)	8,300	22,000	\$15.37	
Northeast Heights	4,234,371	465,796	11.0%	(2,551)	38	-	\$10.82	
Rio Rancho	1,377,965	68,748	5.0%	4,589	7,351	307,175	\$9.44	
South Valley	971,752	94,312	9.7%	-	26,908	-	\$9.36	
Southeast Heights	2,804,895	220,579	7.9%	10,140	33,902	27,000	\$8.42	
University	1,016,764	166,704	16.4%	(63)	(24,714)	-	-	
Uptown	2,267,923	339,212	15.0%	-	(149,629)	171,000	\$14.50	
West Mesa	1,744,950	158,219	9.1%	28,440	102,881	73,631	\$15.51	\$21.00
Suburban Total	25,162,174	2,037,816	8.1%	45,357	302,834	876,508	\$10.87	\$21.45
Totals	25,743,152	2,177,963	8.5%	56,189	318,542	876,508	\$10.87	\$21.45

By Product Type (All Submarkets)							Asking Rent by Product Type	
Community	2,575,885	183,488	7.1%	39,900	48,300	-	-	\$14.33
Free-standing	5,989,854	369,317	6.2%	(10,500)	304,859	449,113	-	\$10.69
Neighborhood	6,732,091	687,955	10.2%	21,855	81,186	118,905	-	\$10.87
Power	1,068,429	8,802	0.8%	-	(7,973)	-	-	\$21.45
Showroom	1,724,503	100,000	5.8%	-	11,334	-	-	\$5.75
Specialty/Theme	-	-	-	-	-	171,000	-	-
Strip	4,227,819	403,293	9.5%	(5,898)	18,004	137,490	-	\$10.97
Super-regional	3,156,213	310,000	9.8%	-	(150,000)	-	-	\$77.35
TBD	-	-	-	-	-	-	-	-
Urban Retail	268,358	115,108	42.9%	10,832	12,832	-	-	\$8.52
Totals	25,743,152	2,177,963	8.5%	56,189	318,542	876,508	\$17.54	

(1) Inventory includes multi-tenant, single-tenant and owner-occupied buildings with at least 10,000 sq. ft.

(2) Vacant space includes both vacant direct and vacant sublease space.

(3) Space under construction includes speculative and build-to-suit for lease projects and owner-built projects.

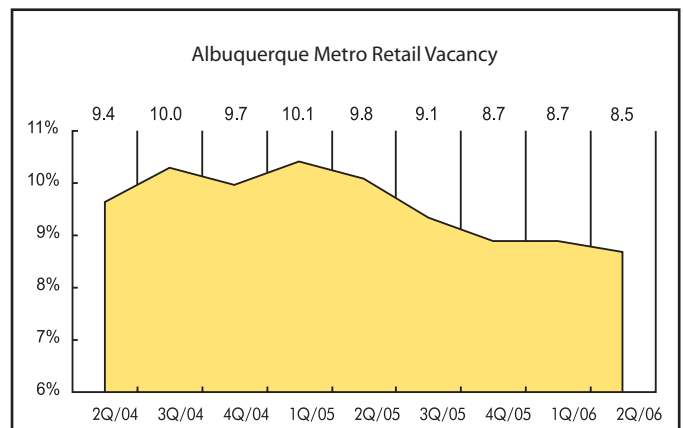
(4) Asking rates are per square foot per year, triple net. Rates for each building are weighted by the amount of available space within the building.

Free-Standing Driving Activity

The retail market cruised through the second quarter with no major bumps in the road brought on by rising gas prices. Absorption of space continued to be driven by new free-standing buildings, which have significantly contributed to absorption levels for the last six quarters. This quarter, the new Super Wal-Mart in Rio Rancho was responsible for a majority of space absorbed. Look for this free-standing absorption trend to continue for at least the next 18 months. Two new, 85,000 square foot Kohl's Stores should be delivered prior to the holiday season in the Far Northeast Heights and Cottonwood submarkets. Additionally, a new 150,000 square foot Lowe's Home Improvement Warehouse is ready to start construction in the third quarter in the North Valley area by I-40.

Activity levels for other retail property types remained steady. Interest remained high for the West Mesa, Cottonwood, and Rio Rancho submarkets. New construction continues to be the preference for many tenants despite having much higher asking rates. Retail centers in established areas like the Northeast and Southeast Heights remained stable for the quarter in terms of activity and deals being made.

Other than rising gas prices depleting consumer pocket books, the Albuquerque Metro area retail market should remain strong throughout the end of the year. The unemployment rates for the Albuquerque metro was 3.7 percent in May, down from 4.9 percent a year earlier. The long awaited ABQ Uptown lifestyle center is scheduled to open in the fall and its premiere, new to New Mexico tenant list, should attract shoppers from many areas of the state.



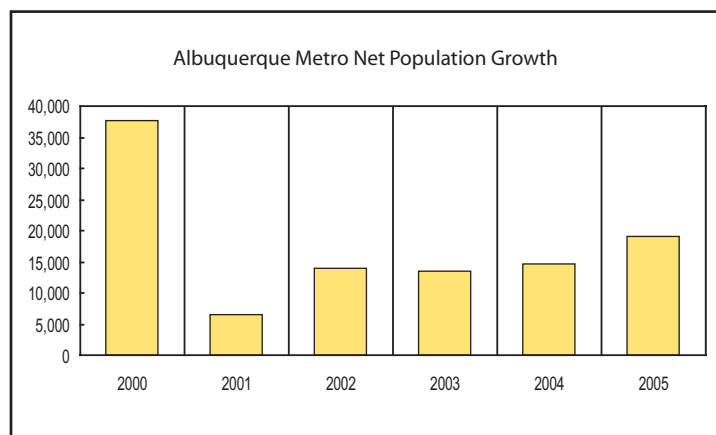
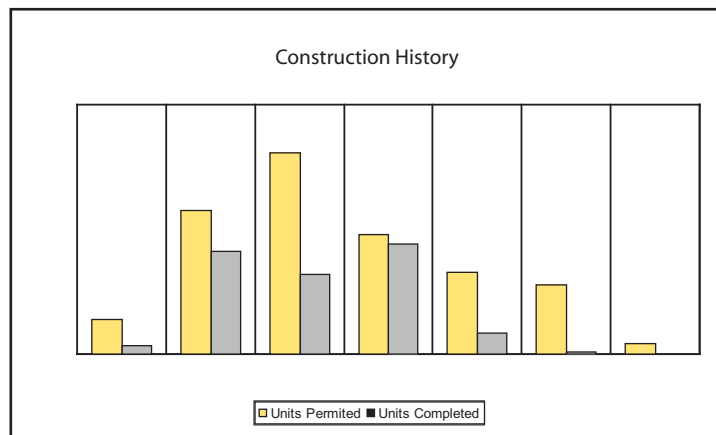
Multi Housing Market Trends

New Construction Declines

Construction of new multi housing projects has declined significantly over the last two years. Only 137 new units have been delivered to the Albuquerque Metro area market since 2004 and new units permitted have dropped below 500 for both 2004 and 2005. With the occupancy rate holding above 93 percent for the last 18 months, no surge in new multi housing projects has materialized.

Several factors are limiting new multi housing developments. The first is a lack of land zoned for multi family uses. In the city of Albuquerque, tracts larger than three acres are virtually non-existent and are very hard to find. Probably the biggest factor reducing new developments are construction costs rising disproportionately to rent increases. In the last two years, the cost of new construction has, by most estimates, risen by at least 20 percent a year, while monthly rents have only increased by two percent. The rents required in new projects are well above current market rents and are not very competitive.

The occupancy rate is expected to climb for the next four quarters and landlords should begin to achieve some pricing power to raise rates. These increases, however, are probably not going to be enough to spur many more multi housing developments. And with the lack of multi housing land continuing, new projects will be few and far between. Look for renovation strategies to become popular and provide landlords with additional pricing power.



* Source: Apartment Association of New Mexico, Reports Published Q2 & Q4 Annually



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2400 Louisiana Blvd NE

Bldg 1, Suite 300

Albuquerque, NM 87110

Phone: 505.883.7676

Fax: 505.883.1034

www.genewmexico.com

Industrial Market Trends

By Submarket (All Product Types)	Total SF(1)	Vacant SF(2)	Vacant %	Net Absorption		Under Construction(3)	Asking Rent(4)	
				Current Qtr.	Year-to-date		WH/Dist.	R&D/Flex
Airport	809,469	27,253	3.4%	8,760	22,233	-	\$4.75	\$7.35
Downtown	3,083,429	477,250	15.5%	93,598	180,397	-	\$4.03	\$8.89
Far NE Heights	215,664	2,000	0.9%	-	64,600	-	-	-
Mesa Del Sol	-	-	-	-	-	87,596	-	-
North I-25	15,625,190	1,457,913	9.3%	216,989	369,239	229,686	\$6.33	\$8.47
North Valley	1,394,543	177,569	12.7%	(19,500)	2,396	-	\$6.34	-
Northeast Heights	424,281	53,314	12.6%	16,454	38,196	-	\$6.35	-
Rio Rancho	5,709,819	33,236	0.6%	4,000	26,000	-	\$5.00	-
South Valley	2,173,310	139,366	6.4%	10,790	54,792	181,400	-	-
Southeast Heights	1,053,230	47,560	4.5%	(12,882)	(12,882)	163,914	-	\$17.00
University	198,460	10,400	5.2%	-	-	-	\$3.00	-
West Mesa	2,380,901	188,330	7.9%	8,236	96,459	812,800	\$5.85	-
Totals	33,068,296	2,614,191	7.9%	326,445	841,430	1,475,396	\$5.75	\$8.69
By Product Type (All Submarkets)							Asking Rent by Product Type	
General Industrial	15,718,950	1,361,289	8.7%	213,616	296,385	1,022,396	\$6.02	
R&D/Flex	3,474,118	412,557	11.9%	35,412	74,859	179,274	\$8.69	
Warehouse/Dist.	13,875,228	840,345	6.1%	77,417	470,186	273,726	\$5.75	
Total	33,068,296	2,614,191	7.9%	326,445	841,430	1,475,396	\$6.56	

(1) Inventory includes multi-tenant and single-tenant buildings with at least 10,000 sq. ft.

(2) Vacant space includes vacant sublease space.

(3) Space under construction includes speculative and build-to-suit for lease projects and owner-built projects.

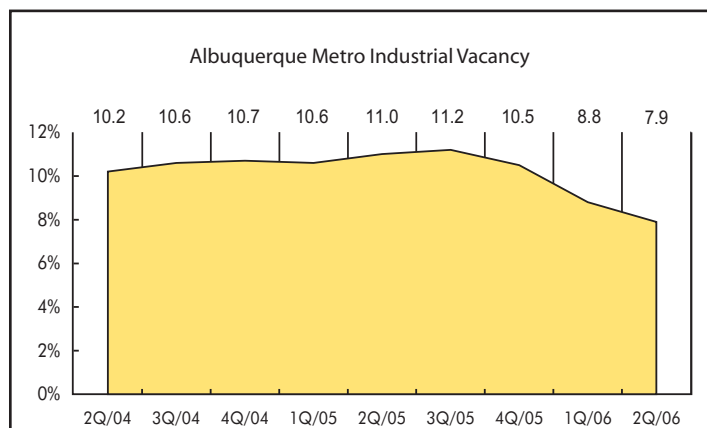
(4) Asking rates are per square foot per year, NNN. Rates for each building are weighted by the amount of available space within the building.

Back to Back

The positive absorption trend continued in the second quarter. Across all property types, the industrial market posted healthy results and activity remained vibrant. Performing especially well were general industrial properties in the manufacturing and office warehouse areas. These property types have not seen this level of absorption activity since the fourth quarter of 2004 which was then being driven by new owner occupied projects. Conversely, in the second quarter of 2006, a majority of the activity occurred in the leasing of existing facilities.

Overall existing industrial inventory should continue to perform well throughout the remainder of the year. New speculative construction projects have dropped off significantly since lease rate increases have not kept up with rising construction, interest rate and land costs. This positions existing inventory very well from an economic perspective. New projects are commanding higher asking rates to cover the increased building costs while established industrial buildings can offer lower lease rates, especially in general industrial buildings that are move in ready.

One key factor when comparing existing versus new buildings is to determine the amount of renovations required to make the existing space functional. Since many industrial properties were built with specific design parameters for their previous owners or tenants, significant renovations may be required. More often than not, a renovation strategy should prove more cost effective than starting a new building. One exception is for new warehouse and distribution properties. In these property types, a key factor is the amount of cubic square feet a facility can hold. Newer warehouses can store a higher cubic square footage since their ceiling heights are generally higher than older warehouse properties and may be more affordable on a cubic square foot basis.



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Property Management:

Mary-Jo Griffin, CPM®
Executive VP, Portfolio Manager

Elizabeth Liming
Portfolio Manager

John K. "Ken" Scoggins, CPM®
Portfolio Manager

Kathleen Sun
Assistant Portfolio Manager

Grubb & Ellis|New Mexico Research Second Quarter 2006



2400 Louisiana Blvd NE
Bldg 1, Suite 300
Albuquerque, NM 87110

Phone: 505.883.7676

Fax: 505.883.1034

Internet: www.genewmexico.com

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