

Grubb & Ellis | New Mexico Research



Provide an optimal resolution strategy...

Receiverships Provide a Path to Stabilize a Property

The challenging economic environment is spurring unprecedented vacancy levels across most commercial property types. Industrial and retail properties are experiencing the most dramatic tenancy losses as a result of a weakened single family housing market and a lack of new housing construction starts. These factors combined with a lack of available credit and growing unemployment levels are causing both consumers and businesses to save more and spend less. The net result is a growing number of investment properties that are underperforming with many experiencing difficulties meeting their debt obligations.

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Some investment properties purchased during the real estate boom over the last few years are becoming vulnerable, especially those purchased with less than 20 percent equity. Investment properties acquired at low capitalization rates and now experiencing tenant losses are likely to face increased lender scrutiny. With values decreasing, lenders may ask for curtailment payments to bring down the loan to value ratio required in the mortgage. Often investors lacking adequate reserves are subject to lender foreclosures and workouts.

When investment properties experience difficulties meeting their obligations, lenders can place them in the care of a court appointed receiver as a precursor to foreclosure. Properties placed in receivership ensure collected rents are used to fund property needs and are not used for other purposes. The receiver is responsible for stabilizing the property. This includes property management, handling finances, leasing vacant spaces and renewing existing leases. The receiver usually contracts out these services as needed. Fees for the receiver are negotiated by the court and are normally paid from the property's operating revenue. Any retained earnings are typically put in reserves or used to pay back delinquencies. Conversely, operating deficiencies associated with the property can be added back into the mortgage by the court.

The end game is for the receiver to devise and implement an optimal resolution strategy under court auspices. If stabilization of the asset occurs and the mortgage defaults are corrected, the property's original buyer can regain control and ownership of the asset. If stabilization is not possible, the property can be sold or foreclosed on by the lender.

Albuquerque Market Trends

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Ken Schaefer

Director of Brokerage Services
E-mail: ken.schaefer@grubb-ellis.com

Grubb & Ellis|New Mexico
2424 Louisiana Blvd NE, Suite 300
Albuquerque, NM
505.883.7676 main
Internet: www.genewmexico.com
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Office Market Trends

By Submarket (All Classes)	Total (1)	Vacant (2)	Vacant %	Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF		Current Qtr	Year To Date	SF	Class A	Class B
Downtown	2,640,670	508,932	19.3%	(30,498)	(30,498)	-	\$21.28	\$14.58
CBD Total	2,640,670	508,932	19.3%	(30,498)	(30,498)	-	\$21.28	\$14.58
Airport	1,246,469	116,103	9.3%	(9,655)	(9,655)	-	-	\$14.19
Far Northeast Heights	920,109	95,068	10.3%	295	295	42,354	-	\$17.71
Mesa del Sol	158,210	53,210	33.6%	-	-	112,842	-	\$23.50
North I-25	3,211,949	476,242	14.8%	(26,814)	(26,814)	17,443	\$21.00	\$18.57
Northeast Heights	798,700	120,711	15.1%	51,136	51,136	-	-	\$14.66
Rio Rancho	410,056	65,784	16.0%	6,250	6,250	-	-	\$18.66
Southeast Heights	592,476	63,034	10.6%	(7,007)	(7,007)	-	-	\$16.16
University	997,419	108,890	10.9%	11,552	11,552	-	-	\$17.95
Uptown	1,837,102	189,759	10.3%	(31,588)	(31,588)	-	\$20.14	\$19.51
West Mesa	353,374	103,247	29.2%	8,063	8,063	-	-	\$20.61
Suburban Total	10,525,864	1,392,048	13.2%	2,232	2,232	172,639	\$20.58	\$18.58
Totals	13,166,534	1,900,980	14.4%	(28,266)	(28,266)	172,639	\$21.07	\$17.70

By Class (All Submarkets)	Total	Vacant	Vacant %	Current Qtr	Year To Date	Under Const.	Available for Sublease	
							CBD	Suburban
Class A	1,386,156	117,964	8.5%	35,134	35,134	-	-	-
Class B	8,739,672	1,358,782	15.5%	(48,435)	(48,435)	172,639	17,716	206,512
Class C	3,040,706	424,234	14.0%	(14,965)	(14,965)	-	-	2,475
Totals	13,166,534	1,900,980	14.4%	(28,266)	(28,266)	172,639	17,716	208,987

(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 available space in the building.

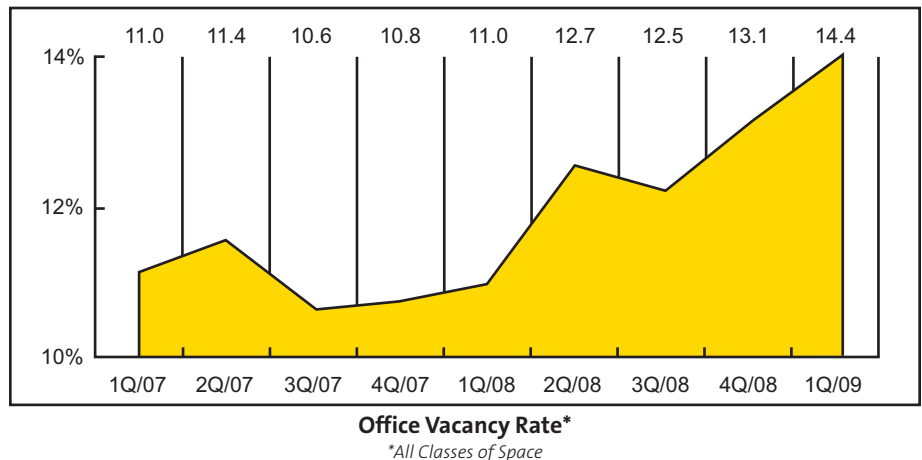
* Grubb & Ellis/New Mexico statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

No Big Surprise – Vacancy Rises

As could be expected the challenging economic environment propelled vacancy levels upward by 130 basis points. This increase was hastened by two mid-sized speculative projects, totaling 99,000 square feet, being delivered with only 12,300 square feet of tenancy. Combined with another 63,000 square feet of downsizings from the financial and housing sectors, vacancy had only one direction to go – up.

Near term vacancy increases are likely to occur as the amount of overall available space on the market is growing. Compared to a year ago, available space surged by more than 430,000 square feet. Many companies are planning to trim their space requirements as a result of layoffs and lost business. These spaces are still occupied but have been placed on the market adding additional supply. Further economic weakness is likely to turn these available spaces into vacant sublease spaces. The total amount of vacant sublease space, however, only rose about 20,000 square feet from a year ago.

Although leasing velocity is down considerably, tenants that are in the market for space are searching for huge landlord concessions. This “blood in the water” attitude has not yet been adopted by many landlords. Landlords are more willing to make concessions but not at levels which are economically unfeasible. It is a great time for tenants to lock in attractive renewal rates. The challenge will be dealing with tenant improvement costs and rising commercial property taxes. New office projects may begin to appear more attractive from a rate standpoint since tenant improvement expenses are lower on first generation spaces and the property tax assessments were already at higher levels.



Retail Market Trends

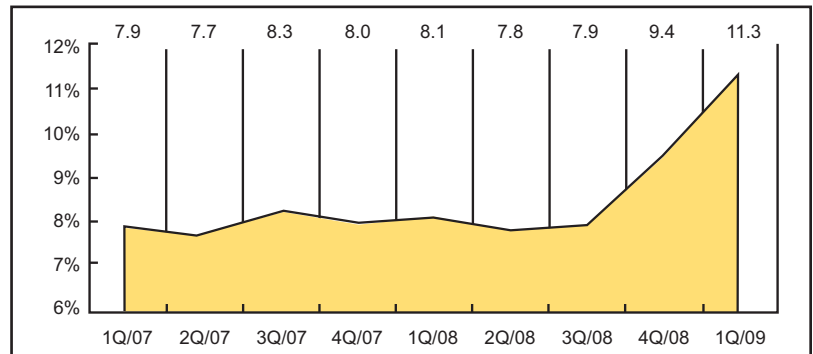
Vacancy Surge off the Charts

What started out as a slight cold turned into a bad case of the flu caught from a weak national economy. The Albuquerque metro area retail market showed symptoms of weakness as vacancy soared to its highest level since 2002. This sharp increase was propelled by a storm of bankruptcies and closings by national and regional retailers. The largest were Circuit City and American Home Furnishings who each shuttered two stores while Wild Oats closed one store resulting from a merger consolidation. Combined these closings accounted for almost forty percent of the total space lost.

All property types experienced a challenging environment and lost tenants. Especially hard hit were local tenants moving out of well anchored strip, neighborhood, community and showroom centers. A majority of national retailers are not in a growth mode right now and are becoming very selective when looking at new sites. Look for more difficulties to take place in the automotive sector. The recent closings of Zangara Dodge dealership and Enchantment RV are likely just the beginning.

Many retailers are in survival mode and weak players are being forced to close. This is good news for stronger players who can gain market share from competitors closing and provide long term stability. With more landlord rate concessions available, well established retailers can now look at centers that were previously out of their budget.

The construction pipeline has a low level of speculative projects. Only 28,000 square feet is underway in two small strip centers. For the rest of 2009 vacancy is not expected to jump up as dramatically as it did in the first quarter.



Retail Vacancy Rate*
*All Product Types

By Submarket (All Property Types)	Total (1)	Vacant (2)	Vacant %	Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF		Current Qtr	Year To Date	SF	Neighborhood	Power
Downtown	552,038	114,791	20.8%	(5,680)	(5,680)	-	-	-
CBD Total	552,038	114,791	20.8%	(5,680)	(5,680)	-	-	-
Airport	23,089	23,089	100.0%	(2,252)	(2,252)	-	-	-
Cottonwood	4,051,007	400,813	9.9%	(128,508)	(128,508)	-	\$19.62	\$24.00
Far Northeast Heights	3,848,205	368,089	9.6%	(63,652)	(63,652)	-	\$16.91	-
North I-25	3,200,883	252,221	7.9%	26,981	26,981	14,957	\$12.63	-
North Valley	968,540	92,389	9.5%	(4,242)	(4,242)	-	\$14.57	-
Northeast Heights	4,071,084	654,427	16.1%	(172,563)	(172,563)	203,982	\$15.93	-
Rio Rancho	1,765,718	91,576	5.2%	(2,700)	(2,700)	14,288	\$16.90	-
South Valley	1,017,346	88,491	8.7%	670	670	-	\$12.70	-
Southeast Heights	2,754,190	212,729	7.7%	(186,107)	(186,107)	-	\$13.51	-
University	1,011,266	119,877	11.9%	(5,155)	(5,155)	-	\$20.00	-
Uptown	1,998,699	397,042	19.9%	(141,509)	(141,509)	-	\$15.00	-
West Mesa	2,055,876	271,141	13.2%	(10,990)	(10,990)	14,000	\$18.29	-
Suburban Total	26,765,903	2,971,884	11.1%	(690,027)	(690,027)	247,227	\$16.28	\$24.00
Totals	27,317,941	3,086,675	11.3%	(695,707)	(695,707)	247,227	\$16.28	\$24.00
(All Submarkets)								
Community	2,133,350	320,566	15.0%	(34,930)	(34,930)	203,982	\$16.32	-
Free-standing	7,816,742	555,839	7.1%	(154,823)	(154,823)	14,000	\$11.19	-
Neighborhood	6,921,137	930,979	13.5%	(198,583)	(198,583)	-	\$16.28	-
Power	1,299,062	46,042	3.5%	(4,792)	(4,792)	-	\$24.00	-
Showroom	2,016,156	196,689	9.8%	(69,780)	(69,780)	-	\$15.90	-
Specialty/Theme	171,000	12,722	7.4%	(2,222)	(2,222)	-	\$42.50	-
Strip	4,466,300	501,957	11.2%	(63,561)	(63,561)	29,245	\$14.10	-
Super-regional	2,190,336	392,427	17.9%	(160,435)	(160,435)	-	\$37.52	-
Urban Retail	303,858	129,454	42.6%	(6,581)	(6,581)	-	\$17.88	-
Totals	27,317,941	3,086,675	11.3%	(695,707)	(695,707)	247,227	\$17.92	-

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

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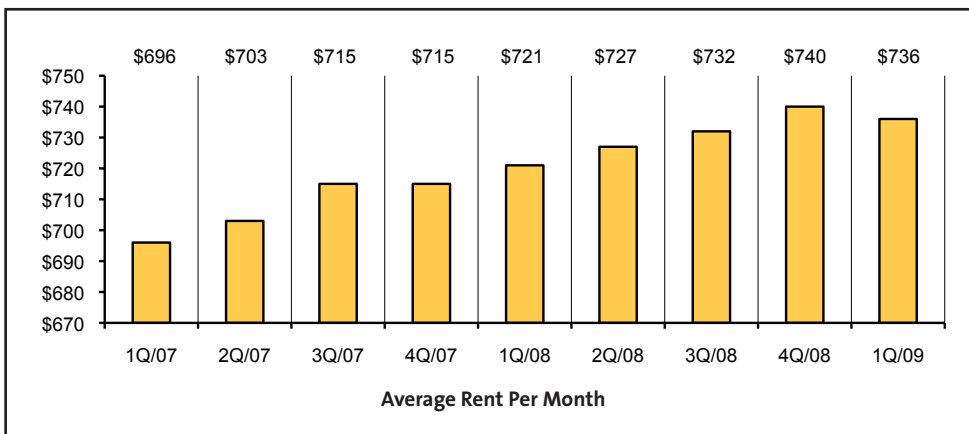
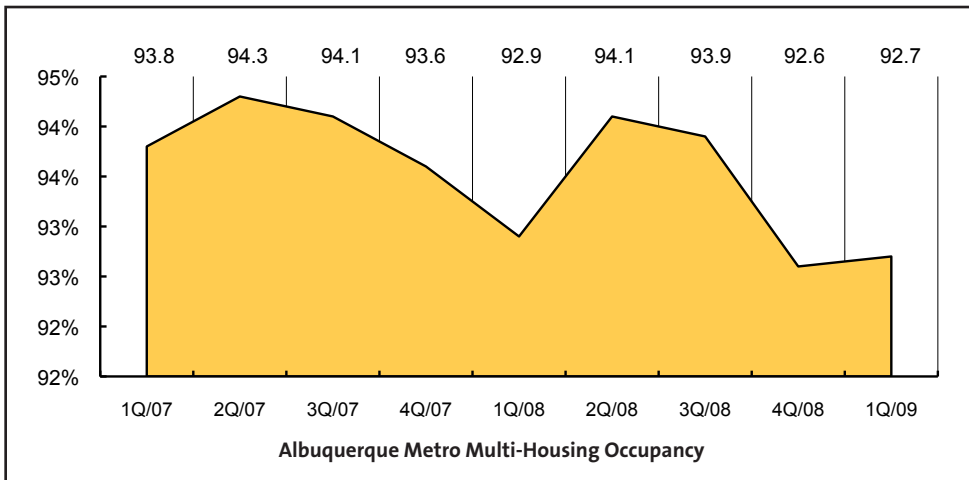
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Multi Housing Market Trends

Single Family Homes Compete for Tenants

The housing slump and recession have produced countervailing forces that are impacting the apartment market in both positive and negative ways. A weak economy has forced many home owners to become tenants as job losses and foreclosures have increased. As a result occupancy levels have remained fairly stable and within historical norms. Growing supplies of single family homes on the market is actually beginning to impact multi family occupancy. Some homes have been on the market for extended periods are now being introduced to the rental pool and are now competing for tenants.

People are now doubling up enabling them to live in larger homes with more amenities at competitive rates. To counter this trend, multi family landlord concessions are beginning to be offered. From a unit mix perspective, concessions on a one bedroom/one bathroom unit is starting to occur to combat falling occupancy rates in this segment. Concessions should remain for the balance of 2009 and begin to diminish in 2010 once the economy gains momentum.



Source: RealFacts, Inc.



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2424 Louisiana Blvd NE, Suite 300

Albuquerque, NM 87110

Main: 505.883.7676 Fax: 505.883.1034

www.genewmexico.com

Industrial Market Trends

By Submarket (All Property Types)	Total (1)	Vacant (2)	Vacant %	Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF		Current Qtr	Year To Date	SF	WH/Dist	R&D/Flex
Airport	844,176	78,840	9.3%	(3,235)	(3,235)	-	\$6.00	-
Downtown	3,345,673	576,367	17.2%	(104,481)	(104,481)	-	\$4.71	\$7.50
Far Northeast Heights	215,664	4,000	1.9%	(2,000)	(2,000)	-	\$8.34	-
Mesa Del Sol	414,334	-	-	-	-	261,000	-	-
North I-25	15,675,654	1,487,898	9.5%	(414,121)	(414,121)	93,686	\$6.81	\$9.01
North Valley	1,591,795	222,663	14.0%	2,775	2,775	-	\$7.68	-
Northeast Heights	358,801	64,781	18.1%	-	-	-	\$5.60	-
Rio Rancho	6,057,304	142,297	2.3%	(900)	(900)	15,375	-	\$12.15
South Valley	2,514,632	214,726	8.5%	(84,993)	(84,993)	-	\$5.65	-
Southeast Heights	1,492,713	260,944	17.5%	9,164	9,164	-	\$3.50	\$11.87
University	193,960	10,400	5.4%	-	-	-	\$3.00	-
West Mesa	3,830,053	389,870	10.2%	6,035	6,035	43,200	\$6.98	-
Suburban Total	36,534,759	3,452,786	9.5%	(591,756)	(591,756)	413,261	\$6.30	\$10.43
Totals	36,534,759	3,452,786	9.5%	(591,756)	(591,756)	413,261	\$6.30	\$10.43

By Property Type (All Submarkets)	Asking Rent						
General Industrial	17,767,580	1,413,351	8.0%	(54,366)	(54,366)	370,061	\$7.27
Incubator	12,000	-	-	-	-	-	-
R&D/Flex	4,145,802	584,170	14.1%	(48,200)	(48,200)	-	\$10.43
Warehouse/Distribution	14,609,377	1,455,265	10.0%	(489,190)	(489,190)	43,200	\$6.30
Totals	36,534,759	3,452,786	9.5%	(591,756)	(591,756)	413,261	\$7.62

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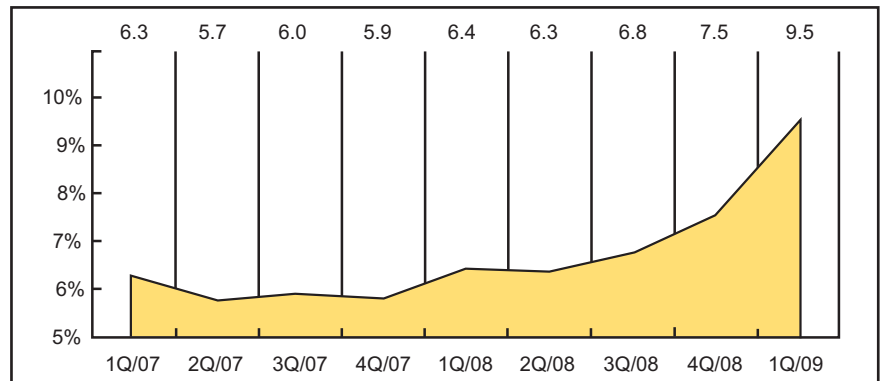
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Vacancy Sky High

The first quarter of 2009 delivered one of the biggest vacancy increases seen over the last ten years. Overall industrial vacancy surged upward by 190 basis points. This equates to almost 600,000 square feet of new space hitting the market. Reasons for the big increase can be attributed to bankruptcies, downsizings, and closings from both local and national tenants.

From a product type standpoint, the biggest losses occurred in distribution and warehouse properties which accounted for 82 percent of additional vacant space. Almost half of this negative activity was a casualty of industries related to the single-family housing market. The destabilized housing market appears to be contributing to disproportionate levels of excess space being vacated. Companies involved in the distribution of building materials, home furnishings, and flooring are having the biggest pullbacks.



The destabilized housing market appears to be contributing to disproportionate levels of excess space being vacated. Companies involved in the distribution of building materials, home furnishings, and flooring are having the biggest pullbacks.

The Downtown submarket was hit the hardest accounting for 20 percent of all new vacant space hitting the market. This additional 120,000 square feet of vacancy primarily occurred in older, functionally obsolete warehouse properties. The challenge for these older warehouse properties is actually competing on price. Lower ceiling heights can actually make warehouse space more expensive when evaluated on a cost per cubic square foot basis. Newer warehouses with clear heights over 24 feet can also handle computerized racking systems and offer even more savings. The biggest vacancy increase occurred in the North I-25 submarket as the result of a regional furniture retailer filing bankruptcy and closing down 167,000 square feet of state-of-the-art warehouse space.

Property Management in Today's Economic Times

The need for professional property management is even more important in the current economic climate than ever before. Property managers not only collect rent for Owners but provide them with critical information and tools for a successful and profitable investment. During these challenging times, attracting tenants is essential and both location and curb appeal are significant elements.

ABQ Uptown demonstrates a perfect example of this idea. This "Lifestyle Retail Center" provides customers with a very nice atmosphere for shopping, walking and dining in a stimulating outdoor environment. The center has an experienced property manager, accountant and maintenance staff that provides service seven days a week. The grounds are clean with exceptional exterior lighting, and plenty of available underground parking. The location for retailers is superior as it is convenient for shoppers from all parts of the metro area.

A good property manager along with a strong team provides the owner support in operations, tenant relations and financial services. Any owner would benefit from partnering with a management team that delivers exceptional and valuable service for their investment, as well as the understanding that tenants expect real time service, a well maintained and visually appealing property.



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505.993.1034 fax

505.883.7676 main

Albuquerque, NM 87110

2424 Louisiana Blvd. NE, Suite 300

