

Office Market Trends Albuquerque

Grubb & Ellis Research
Fourth Quarter 2006



Tenant improvements are shrinking..

Landlords Begin to Flex Muscles

Momentum in the office market remained positive during the fourth quarter. The pace of new construction continued to be steady. Most new projects experienced strong absorption of at least 50 percent occupancy upon completion. Lease up times for new projects has continued to meet expectations for most developers. Throughout 2006, many tenants were willing to pay higher rents for new buildings with higher quality finishes and build-outs. Existing buildings, on the other hand, were finally able to increase rates given a healthy, stable vacancy rate.

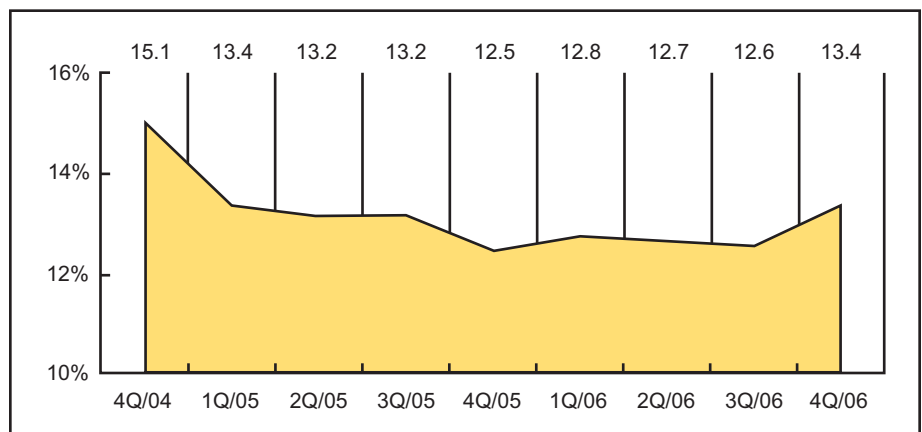
Tenant improvement allowances provided by landlords will be key to making deals. Rising construction costs have caused landlords to provide minimal improvement allowances. The typical allowance is for basic paint and carpet, beyond which tenants must cover the expenses. This trend is a major reason new construction projects are doing well. Developers of new projects are generally providing more attractive build out amounts compared to existing office buildings.

Even though vacancy increased 80 basis points, the rise was not a sign of a weakening market. This increase was the result of two factors. The first was the shuttering of America Online's 65,000 square foot call center office in the North I-25 submarket. This closing was part of AOL's planned company wide downsizing. The space is not expected to remain vacant for long. It offers inventory that is tough to find – large contiguous floor plates in a desirable, centralized location. The second factor increasing vacancy was 83,000 square feet of new space completed. These five new buildings still had 40,000 square feet of vacant space at the end of the quarter.

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