

Office Market Trends Albuquerque

Grubb & Ellis Research
Third Quarter 2007



Class B Buildings Gleaning Much Activity...

Small Goes Big

The office market emerged from the doldrums in the third quarter due to a surge of activity among smaller tenants. Strong absorption occurred with tenants in the 1,000 to 10,000 square foot range. This is in stark contrast to recent years in which the majority of absorption took place among tenants that were 25,000 square feet and larger.

This swell of activity for small sized tenants is primarily occurring in Class B buildings. During the third quarter over 120,000 square feet of space was absorbed by smaller tenants moving into Class B buildings. Many Class C tenants are upgrading spaces into Class B properties. On a year to date basis, older Class C properties have experienced the biggest loss of tenants in aggregate.

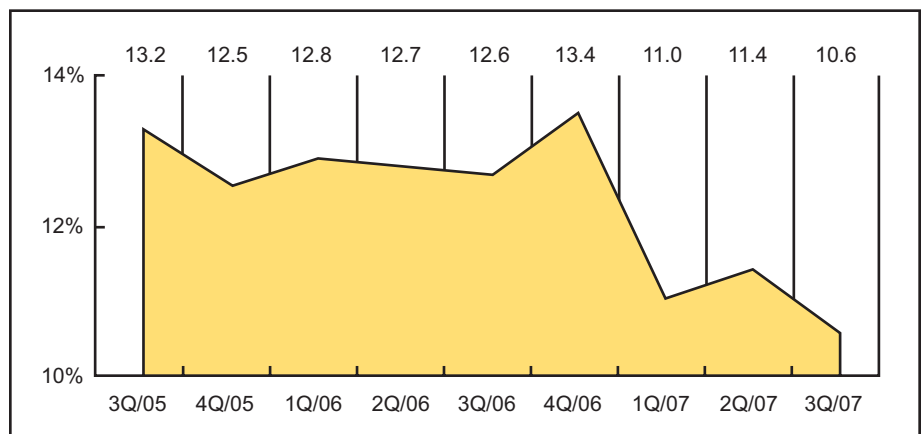
Another reason Class B buildings are doing very well is that smaller office users are starting to favor leasing over purchasing. A shortage of small office buildings to purchase exists in the market, especially less than 5,000 square feet. To meet this need, office condominiums have become a popular but expensive option. New office condominium projects typically have prices starting at \$200 dollars per square foot for a finished shell plus another \$25 to \$50 dollars per square foot to build out the interiors. A ten percent return for the condominium buyer would equate to a lease rate starting out at \$22.50 per square foot plus expenses. Leasing Class B space at the market average of just under \$17 appears to be the more desirable option.

Sales of office condominiums should remain strong for medical office users since they typically have high build out costs. Look for existing Class B properties to remain very strong throughout the end of the year, especially for small and medium sized tenants.

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Office Vacancy Rate*
*All Classes of Space

Office Market Snapshot Albuquerque Third Quarter 2007

By Submarket (All Classes)	Total (1) SF	Vacant (2) SF	Vacant %	Net Absorption		Under Const. (3) SF	Asking Rent (4)	
				Current Qtr	Year To Date		Class A	Class B
Downtown	2,649,225	494,207	18.7%	(19,507)	34,491	11,096	\$22.00	\$14.27
CBD Total	2,649,225	494,207	18.7%	(19,507)	34,491	11,096	\$22.00	\$14.27
Airport	1,235,020	115,552	9.4%	33,522	167,813	-	-	\$13.81
Far Northeast Heights	965,027	104,070	10.8%	10,318	(6,126)	-	-	\$19.09
North I-25	2,915,710	228,314	7.8%	49,998	71,689	269,809	-	\$19.38
Northeast Heights	730,584	72,245	9.9%	11,488	(5,371)	-	-	\$16.26
Rio Rancho	293,022	16,696	5.7%	18,762	17,210	52,118	-	\$18.82
Southeast Heights	596,673	23,566	3.9%	1,069	3,736	-	-	\$19.50
University	958,737	66,005	6.9%	(7,500)	(5,108)	-	-	\$15.86
Uptown	1,821,785	172,646	9.5%	21,627	(14,007)	-	\$21.50	\$17.80
West Mesa	296,280	29,776	10.0%	9,056	11,640	-	-	\$18.85
Suburban Total	9,812,838	828,870	8.4%	148,340	241,476	321,927	\$21.50	\$17.81
Totals	12,462,063	1,323,077	10.6%	128,833	275,967	333,023	\$21.80	\$16.80

By Class (All Submarkets)

	Total (1) SF	Vacant (2) SF	Vacant %	Current Qtr	Year To Date	Under Const. (3) SF	Available for Sublease	
							CBD	Suburban
Class A	1,388,049	155,785	11.2%	19,604	(10,036)	-	3,900	32,530
Class B	7,954,166	839,271	10.6%	108,575	307,072	333,023	-	170,322
Class C	3,119,848	328,021	10.5%	654	(21,069)	-	7,000	4,364
Totals	12,462,063	1,323,077	10.6%	128,833	275,967	333,023	10,900	207,216

(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.

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

Grubb & Ellis Office Locations

