

Grubb & Ellis|New Mexico Research



Condo Queso

Is the Condo Market Melting Down?

The metro area's commercial real estate market has remained healthy over the last six months. Vacancy has not significantly increased; lease rates have kept pace with inflation; and total new construction, excluding commercial condominiums, is down from the previous two years. New office and industrial condominium projects, however, may be facing some big challenges. A significant amount of unsold inventory is currently on the market and more units are in the construction pipeline. At the end of the first quarter over 90 office and 10 industrial condominium units were listed for sale. The total square feet on the market is 276,000 and 58,000 respectively. The new construction pipeline has 72 office and 24 industrial units currently underway almost doubling the existing inventory by year end.

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The excess inventory can be attributed to miscalculating demand and the market not wanting to pay the high cost of new construction. Finding inventory to purchase has been very scarce and especially difficult for small properties less than 5,000 square feet. During the last few years buying conditions were ideal. Interest rates were at historically low levels and abundant supplies of capital were available. Combined with scarce commercial land supplies, building condominiums made sense with strong demand.

The cost to build new projects has risen so fast that most buyers have essentially become priced out of the market. Comparing the asking prices of older buildings on the market to new condominiums, it becomes apparent why a glut excess inventory exists. The asking prices are at least 35 percent higher than older condominiums and other fee simple properties. Compared to leasing, buying a new condominium can be about 40 percent more expensive when using an 8.5 percent rate of return. Increased credit standards, perceived weakening economic fundamentals and lower cost lease options has dramatically reduced the number of buyers. Medical users are one segment attracted to new condominiums since it is more affordable to build out their extensive improvements in first generation spaces compared to retrofitting an existing office.

To deal with the glut of new office condominiums, developers will have to be creative and offer concessions. Creative alternatives include offering lease to purchase options, seller financing, major price reductions, abatement of association fees, or even outright leasing of the space. The key is to add affordability relative to the current leasing options that exist today.

Albuquerque Market Trends
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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	2,600,870	377,681	14.5%	25,559	25,559	11,936	\$22.00	\$14.41
CBD Total	2,600,870	377,681	14.5%	25,559	25,559	11,936	\$22.00	\$14.41
Airport	1,234,969	115,259	9.3%	10,651	10,651	-	-	\$13.73
Cottonwood	15,671	2,732	17.4%	-	-	-	-	\$22.00
Far Northeast Heights	921,325	62,772	6.8%	10,701	10,701	-	-	\$18.61
Mesa del Sol	-	-	-	-	-	210,000	-	-
North I-25	2,968,551	388,465	13.1%	(5,781)	(5,781)	185,587	\$18.00	\$19.92
Northeast Heights	741,088	96,269	13.0%	374	374	-	-	\$16.29
Rio Rancho	363,022	49,435	13.6%	1,142	1,142	10,800	-	\$25.35
Southeast Heights	592,914	30,231	5.1%	(5,505)	(5,505)	-	-	\$17.49
University	973,180	76,161	7.8%	(25,443)	(25,443)	-	-	\$16.00
Uptown	1,834,776	156,650	8.5%	9,921	9,921	-	\$21.50	\$18.85
West Mesa	282,321	26,483	9.4%	936	936	19,540	-	\$18.15
Suburban Total	9,927,817	1,004,457	10.1%	(3,004)	(3,004)	425,927	\$20.61	\$18.26
Totals	12,528,687	1,382,138	11.0%	22,555	22,555	437,863	\$21.35	\$17.35

By Class (All Submarkets)	Total	Vacant	Vacant %	Current Qtr	Year To Date	Under Const.	Available for Sublease	
							CBD	Suburban
Class A	1,389,162	175,122	12.6%	(17,728)	(17,728)	-	2,018	33,000
Class B	8,101,821	878,466	10.8%	53,190	53,190	437,863	17,716	132,835
Class C	3,037,704	328,550	10.8%	(12,907)	(12,907)	-	7,000	15,791
Totals	12,528,687	1,382,138	11.0%	22,555	22,555	437,863	26,734	181,626

(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.

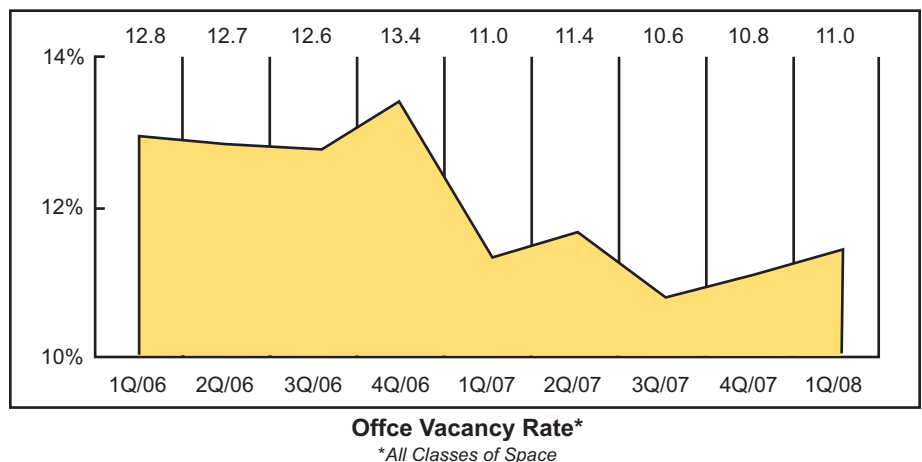
* Grubb & Ellis|New Mexico statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

Signs of Things to Come

The office market has yet to experience any major downturns but some turbulence could be looming. Vacancy increased slightly during the quarter as a result of 77,000 square feet of new space coming on line that still had about one third vacant. Total vacant sublease space is holding around 208,000 square feet which was consistent with 2007 levels. A bigger concern is the 185,000 square foot increase in available space. Disproportionate increases in available space could be a harbinger of growing vacant sublease space over the next few quarters, driving up vacancy.

The construction pipeline is expected to deliver around 200,000 square feet of new space in the second quarter. With only 25 percent of this pre-leased, 150,000 square feet of new space will be delivered empty and vacancy is likely increase by almost one percent. These first generation spaces can meet the shortage of large, contiguous spaces over 20,000 square feet but may remain on the market longer since demand for larger spaces has declined.

Adding even more pressure to the office lease market is the growing number of new office condominiums that have remained on the market unsold. Some developers are changing their strategies by putting their projects on the market for lease. Given the higher asking rates required, these condominium projects will primarily be competing with the newer office buildings. Look for tenants to become much more rate sensitive as a result of the current economic downturn. Landlords of newer office buildings with higher asking rates will likely be forced to consider concessions such as rent abatements and higher tenant improvement allowances.

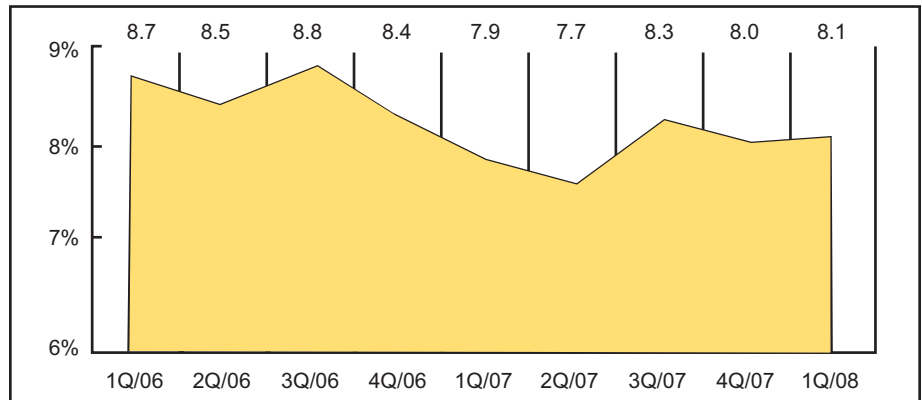


Retail Market Trends

Retail Rides the Waves

Rising gas prices, real estate credit issues, and a weakening economy could not completely dampen the retail market. While the mood of many retailers is not positive, the Albuquerque Metro area is still viewed as a logical choice for growth options. During the last two years, strong population growth outpaced new retail space. In fact, Albuquerque's overall retail space per person declined from 40 square feet per person in 2006 to 37 square feet in 2008.

Vacancy remained stable during the quarter, increasing only by one tenth of one percent. This is a good sign, considering 130,000 square feet of new construction came online during the first quarter. Of this, almost forty percent, or 50,000 square feet was preleased or owner occupied upon delivery matching 2007's level. The amount of new retail projects under construction, conversely, dropped by sixty percent or 278,000 square feet.



Retail Vacancy Rate*

*All Classes of Space

Pre-leasing activity for planned and under construction projects has slowed down significantly compared to 2007. Many tenants

are becoming more selective and are asking for more concessions. Typical requests include more tenant improvement dollars, rental abatement during build-outs, and rate reductions. Consequently, deals are taking longer to get done as fewer tenants command more concessions. Well located centers are still king.

By Submarket (All Property Types)	Total (1)	Vacant (2)		Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF	Vacant %	Current Qtr	Year To Date	SF	Neighborhood	Power
Downtown	588,005	97,264	16.5%	9,799	9,799	-	-	-
CBD Total	588,005	97,264	16.5%	9,799	9,799	-	-	-
Cottonwood	3,989,409	109,238	2.7%	23,716	23,716	47,915	\$17.18	\$26.00
Far Northeast Heights	3,756,052	242,813	6.5%	12,674	12,674	54,312	\$17.69	-
North I-25	3,078,335	168,251	5.5%	398	398	-	\$12.59	-
North Valley	948,704	72,325	7.6%	3,547	3,547	-	\$18.45	-
Northeast Heights	4,001,701	440,341	11.0%	(13,987)	(13,987)	16,000	\$14.29	-
Rio Rancho	1,631,573	84,602	5.2%	(13,640)	(13,640)	-	\$14.06	-
South Valley	1,017,327	71,681	7.0%	(9,407)	(9,407)	-	\$16.63	-
Southeast Heights	2,809,190	99,256	3.5%	(13,796)	(13,796)	-	\$10.05	-
University	979,241	89,628	9.2%	17,974	17,974	30,000	\$20.00	-
Uptown	2,405,896	456,767	19.0%	46,132	46,132	-	\$14.50	-
West Mesa	2,014,733	262,980	13.1%	54,364	54,364	39,868	\$21.32	\$21.00
Suburban Total	26,632,161	2,097,882	7.9%	107,975	107,975	188,095	\$16.51	\$24.09
Totals	27,220,166	2,195,146	8.1%	117,774	117,774	188,095	\$16.51	\$24.09

By Property Type (All Submarkets)							Asking Rent	
	SF	Vacant %	Current Qtr	Year To Date	SF	Neighborhood	Power	
Community	2,121,350	12.6%	(34,346)	(34,346)	16,000	\$13.03		
Free-standing	7,722,887	4.3%	41,042	41,042	-	\$10.37		
Neighborhood	6,852,122	11.0%	16,264	16,264	131,733	\$16.51		
Power	832,382	0.3%	9,809	9,809	-	\$24.09		
Showroom	1,811,468	2.0%	-	-	-	\$15.80		
Specialty/Theme	171,000	10.5%	20,097	20,097	-	\$35.00		
Strip	4,368,259	8.2%	30,996	30,996	40,362	\$12.73		
Super-regional	3,064,213	11.0%	23,610	23,610	-	\$77.47		
Urban Retail	276,485	32.9%	10,302	10,302	-	\$14.04		
Totals	27,220,166	8.1%	117,774	117,774	188,095	\$16.97		

(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, NNN. Rates for each building are weighted by amount of available space within the building.

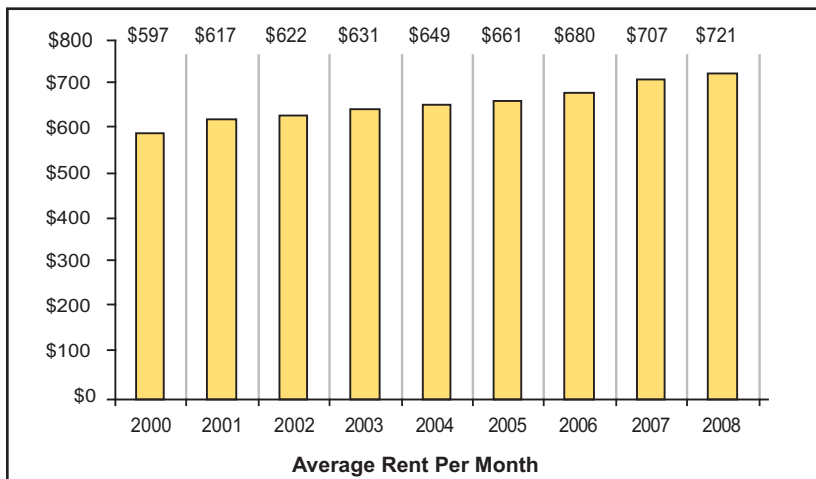
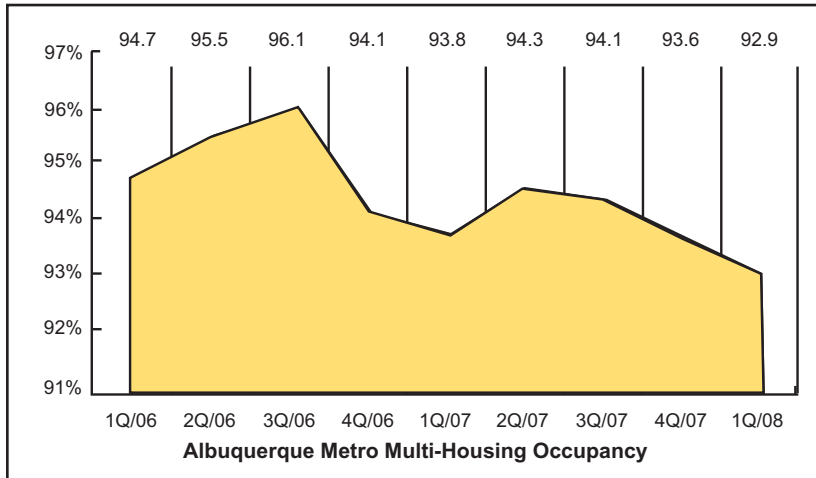
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Multi Housing Market Trends

Demand Rises for Small Units & Holds Steady for Large Units

After a two quarter holiday buyer interest increased significantly for small multi housing investments. Buyers searching for deals in this segment can still expect to find shortages of quality offerings. A rising number of properties with potential foreclosure issues are hitting the market. The trend for selling below the purchase price, called short sale, is growing, especially in properties with less than 10 units. Many of these are aging and require costly renovations in order to make them rentable. When combined with declining occupancy and a lack of reserves for renovations, some investors are very motivated to dispose of their property.

In large properties over 50 units, conversely, investor demand remains very strong and has not lost any momentum. With a shortage of inventory, investors may have to consider a value added strategy and seek out properties requiring major renovations. Well capitalized investors can benefit by achieving rental rates above market with timely renovations. Another revenue enhancement strategy is to charge back utilities to residents in properties that are not master metered. Known as the Ratio Utility Billing Systems (RUBS), the resident's utility bill is calculated using a ratio of the property's total utility expense based on metrics, such as the size of an apartment, number of occupants, number of bedrooms, number of fixtures or similar variables.



Source: RealFacts, Inc.



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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	830,224	75,605	9.1%	(755)	(755)	-	\$12.00	-
Downtown	3,309,327	468,872	14.2%	44,738	44,738	-	\$4.37	-
Far Northeast Heights	215,664	66,000	30.6%	4,000	4,000	-	-	\$12.00
Mesa Del Sol	414,334	-	-	-	-	36,000	-	-
North I-25	15,582,770	896,998	5.8%	8,872	8,872	57,650	\$7.11	\$10.67
North Valley	1,576,895	227,137	14.4%	34,325	34,325	-	\$6.02	-
Northeast Heights	375,134	57,573	15.3%	(30,780)	(30,780)	-	\$3.09	-
Rio Rancho	5,972,367	41,096	0.7%	10,600	10,600	36,437	-	-
South Valley	2,496,303	140,600	5.6%	32,400	32,400	-	\$5.93	-
Southeast Heights	1,287,636	91,449	7.1%	(9,882)	(9,882)	-	\$6.50	\$17.75
University	193,960	23,400	12.1%	-	-	-	\$3.00	-
West Mesa	3,692,392	205,306	5.6%	(20,575)	(20,575)	-	\$6.79	-
Suburban Total	35,947,006	2,294,036	6.4%	72,943	72,943	130,087	\$6.60	\$11.17
Totals	35,947,006	2,294,036	6.4%	72,943	72,943	130,087	\$6.60	\$11.17

By Property Type (All Submarkets)	Asking Rent						
General Industrial	17,603,677	1,217,956	6.9%	30,701	30,701	83,487	\$8.16
Incubator	12,000	-	-	-	-	-	-
R&D/Flex	3,873,147	326,658	8.4%	(25,298)	(25,298)	-	\$11.17
Warehouse/Distribution	14,458,182	749,422	5.2%	67,540	67,540	46,600	\$6.60
Totals	35,947,006	2,294,036	6.4%	72,943	72,943	130,087	\$8.08

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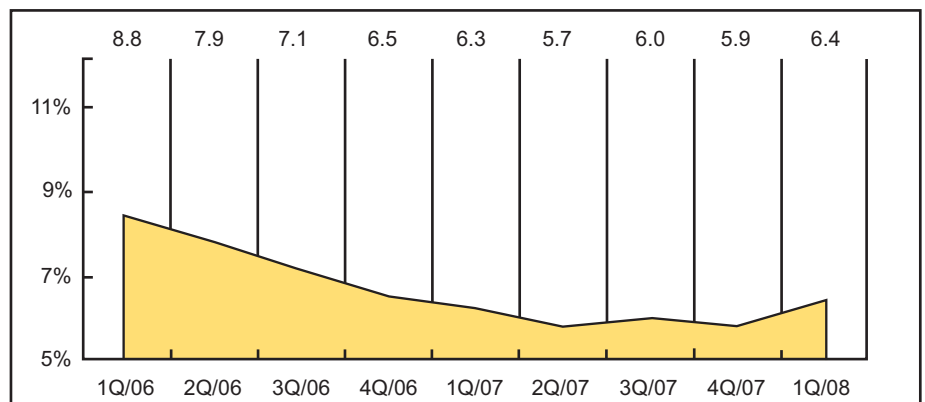
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Construction Down as Market Hangs On

At first look the fifty basis point jump in vacancy that occurred this quarter could be a cause of concern. For most of 2007 very little excess inventory was available. The market was at a frictional vacancy level of six percent, a point where further declines are not possible due to ongoing turnover in the market. During the first quarter, the rise in vacancy can be attributed to new construction coming on line without tenants. Only 25 percent of the 165,000 square feet of new space was occupied upon delivery. Speculative condominiums comprised over 110,000 square feet of this space and have not seen significant absorption. Look for some developers to begin offering condominiums for lease.

The numbers of projects under construction has dropped 77 percent compared to the first quarter of 2007. This sharp decline should protect the market from accumulating too much excess inventory but will restrain the number of viable choices available. Currently no new speculative warehouse and distribution projects are being built. Weak economic conditions will make this situation more palatable but it could become a big challenge if the economy picks up and no options are available.



Overall, the industrial market is still fairly tight even though user activity is down from a year ago.

Total sublease space on the market has actually declined by 25 percent. For the few that need new space, finding the right space at a good rate remains a big challenge. Absorption levels have gone down for the fifth consecutive quarter. Demand for locations in the North I-25 submarket is constant while interest for Downtown locations appears to have increased.

Downtown offers some of the most affordable rates in the region but it also has some of the oldest inventory.

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