

New Mexico's Commercial Real Estate Markets Rise to the Occasion

Despite Albuquerque's downtown revitalization project, the central business district is on the brink of losing several large office tenants, says Dave Hill, CCIM.

Like many cities across the nation, Albuquerque and Santa Fe, N.M., have undertaken downtown revitalization projects to restore economic vitality. But these cities — situated in a high-altitude, semiarid region — must contend with shrinking water supplies and strong anti-growth movements, both of which stifle new commercial real estate development. “The recent adoption by the city of Albuquerque of a planned-growth strategy will create an even higher barrier to entry in an already expensive land market,” says Todd D. Clarke, CCIM, of NM Apartments.

Despite these constraints, New Mexico's pleasing climate and business-friendly atmosphere attract major employers. In March, Gov. Bill Richardson launched a national advertising campaign to tout a recently passed personal income tax cut that should encourage more companies to locate within the state. “The New Mexico administration is taking some significant steps to promote business development here, and I think those efforts will directly translate into a better office space market down the road,” says Lawrence P. Ilfeld, CCIM, of Sperry Van Ness Commercial Real Estate Advisors in Albuquerque.

Retail Stays Its Course

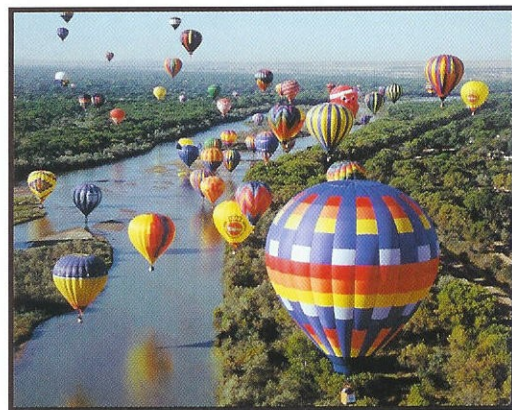
Santa Fe's retail market remains robust, says Jeffrey P. Branch, CCIM, of Columbus Capital Corp., which has developed new stores for Target, Albertsons, Borders, and Best Buy. Overall occupancy hovers around 97 percent, yet several second- and third-generation large spaces are available. New development flourishes: Several restaurant chains are expanding or moving into the area, including Chili's Grill & Bar and Olive Garden, and an additional 350,000-square-foot project is in planning. Branch doesn't expect the growth to subside, as little supply exists. “Sellers are few and far between,” he says.

With a 10.1 percent vacancy rate, Albuquerque's retail market “continues to stabilize,” says Terrie M. Hertweck, CCIM, of Grubb &

Ellis/Lewinger Hamilton. Lease rates have risen from previous years' levels, capitalization rates are falling, and vacant properties are quickly absorbed, she says. Lowe's Home Improvement Warehouse recently opened two new stores in the Northeast Heights and Cottonwood submarkets, and P.F. Chang's China Bistro, Rockfish Café, and Mimi's Café have moved into the North Interstate-25 submarket. Occupied triple-net multitenant retail centers, fully leased new construction, and undervalued older centers are favored by investors, she says.

Multifamily Heats Up

Albuquerque's lack of available land suppresses multifamily development, except in the central business district, which “welcomes new multifamily construction,” Clarke says. The stymied construction and low interest rates “have pushed cap rates to new lows and prices to new highs, while still allowing buyers to maintain cash-on-cash returns of 10 percent to 14 percent,” he says. Cap rates average 10 percent, and sales prices hover around \$1.7 million for 30-unit to 50-unit buildings, says Joe R. Romero, CCIM, of First Commercial Real Estate Services.



Ron Behrmann

Held annually during the first week of October, Albuquerque's International Balloon Fiesta — the world's largest ballooning event — features approximately 750 balloons and attracts more than 1 million people.

However, "It's a double-edged sword: Low interest rates fuel sales but also allow residents to escape into single-family homes," Clarke says. Romero agrees: "First-time home buyers are negatively affecting our occupancy." Yet he believes the market will become "red hot" when interest rates increase.

Industrial Down but Not Out

Although Albuquerque's fourth-quarter 2002 industrial market was the slowest in years, activity has picked up, says Richard Hanna, CCIM, GRI, of Hanna Commercial. The expected closure of several manufacturing plants by Honeywell and Sumitomo Sitix Silicon, among others, will create even more leasing and sales opportunities, especially for large users, says John R. Ransom, CCIM, SIOR, of Grubb & Ellis/Lewinger Hamilton.

First-quarter warehouse/distribution occupancy was 89.1 percent and research and development/flex was 87.2 percent, Ransom says. Sales prices for properties more than 50,000 sf have dropped, but buildings in the 10,000-sf to 20,000-sf range are "selling quick at higher prices," he says. In April, Granite Bedrock Broadbent Partners II purchased the 327,614-sf Broadbent Business Park — on the market since last fall — from Cook Inlet Region for more than \$17 million.

TriCore Reference Laboratories is developing 95,000 sf of R&D/flex space in Albuquerque, and approximately 144,000 sf of warehouse/distribution product is under construction downtown, with an additional 435,000 sf proposed in the South Valley submarket, Ransom says.

In the future, "Large-space availability and excess land, coupled with competitive lease rates, should attract large users from out of state and corporations looking to consolidate," he predicts.

Santa Fe's industrial market is limited, but growth in the biotechnology industry should spur new development, says

James F. Wheeler, CCIM, of Commercial Properties. Occupancy holds consistent at about 95 percent, and lease rates are steady.

Suburban Office Demand Grows

Despite Albuquerque's downtown revitalization, the CBD is on the brink of losing several large office tenants, including the Department of the Interior, which will vacate 80,000 sf and relocate to a new building in the North I-25 submarket at the end of the year, says Dave Hill, CCIM, of Grubb & Ellis/Lewinger Hamilton. Yet these defections will create a multitude of leasing opportunities, especially in large-block office space, which has not been available, Ilfeld says. "Downtown will become continually more attractive as the revitalization process expands the amount and quality of services and older outdated properties are rehabbed," he says.

Total first-quarter occupancy was 84.9 percent, and lease rates range from \$10.53 per square foot in the Southeast Heights submarket to \$18.21 psf in the North I-25 submarket, according to CB Richard Ellis. More than 641,000 sf of new office space currently is under construction, Hill says. The first phase of the Journal Center 2, a project constructed by a subsidiary of the Albuquerque Academy, a major landowner in the area, has 165,000 sf recently completed or under construction, with another 126,000 sf planned for the second phase, Ilfeld says.

"Outside of the CBD there will be a growing demand for low-rise open-concept space at rates under those of class A high-rise buildings," Ilfeld says. The North I-25 submarket in particular should experience strong demand from out-of-state companies due to its strategic location and developable land, Hill says. "Increasing government funding to R&D organizations also will attract businesses from out of state and help improve the office market," he says.

MARKET GLANCE

Alaska's Activity Is Brisk

Alaska's economy has experienced steady growth over the past decade, fueled by the petroleum industry, says Lottie M. Michael, CCIM, GRI, of Bond, Stephens & Johnson in Anchorage. The federal government also is a main economic driver: It owns more than 64 percent of the state's acreage and spends more money per capita in Alaska than in any other state, according to *Alaska Economic Trends*.

Office. A recently absorbed surplus of space in Fairbanks helped the city's occupancy rate climb to 90 percent, says Thomas L. Roberts, CCIM, of Tom Roberts Realty. "Current market prices do not warrant new construction," and only government-owned properties are being built. Lease rates and sales prices are up, and he expects them to increase even more as tenants continue to absorb space.

Multifamily. Anchorage's occupancy rate has held steady around 97 percent for the past two years, Michael says. New construction is rampant in many communities across the state, especially small-scale projects of six to 50 units. "The multifamily market is as active as I have ever experienced. ... It is my opinion that it will continue to be a good investment," she says.

Retail. Growth is prolific in Anchorage, despite Kmart announcing the closure of its Alaska stores, says Chris Stephens, CCIM, of Bond, Stephens & Johnson. The Gap and Best Buy are among the retailers filling vacant space and contributing to the city's 92 percent occupancy rate. "With Kmart leaving the market, retailers that have not been interested in Alaska because of its being so over-retailed may take a second look," he says.

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