

Spotlight: New Mexico

BY RANDALL WOODS



NEW MEXICO CELEBRATES ITS CENTENNIAL THIS YEAR, BUT THE FESTIVITIES MAY BE SLIGHTLY MUTED FOR THE LOCAL COMMERCIAL REAL ESTATE INDUSTRY. DESPITE A HEALTHY CRUDE-OIL AND NATURAL-GAS INDUSTRY AND A GROWING TECHNOLOGY SECTOR, THE PAST COUPLE OF YEARS HAVE BEEN A MIXED BAG FOR THE LAND OF ENCHANTMENT.

Tourism is one of the largest engines of the state economy, employing about 55,000 people statewide, but revenues in the sector dropped from \$6 billion in 2008 to \$5.5 billion in 2009, according to the New Mexico Tourism Department. This past November, Ernst & Young ranked New Mexico as having the nation's highest tax burden on new capital investment, thanks to the state's gross-receipts tax.

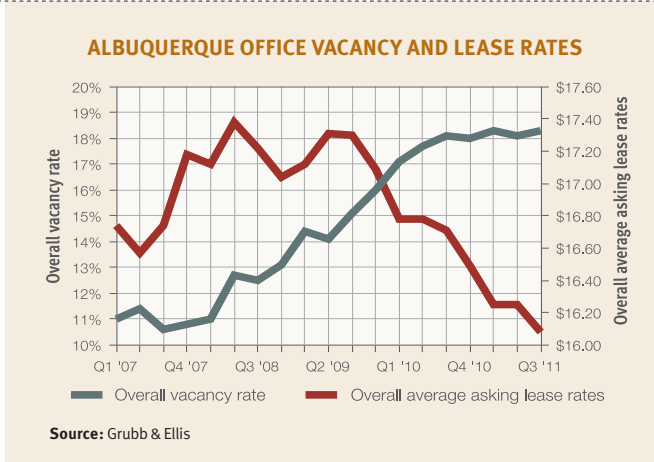
As the home of three Air Force bases, the White Sands Missile Range, Los Alamos National Laboratory and Sandia National Laboratories, New Mexico's economy also depends on federal subsidies. This past September, federal employment in the state grew by a modest 400 jobs compared to the previous September, while 4,300 construction jobs were lost in the same period.

The state does provide some financial incentives to attract new private business, however. In 2007, the New Mexico Film Office estimated that its incentives program had drawn in more than 85 film projects in the previous four years, adding \$1.2 billion to the economy.

Albuquerque Office Market

The state's largest metropolis, with more than 545,000 residents, saw its total office space increase by 1.17 million square feet since 2003, according to Grubb & Ellis. Overall office vacancy rates have skyrocketed from 12.5 percent in the third-quarter 2008 to 18.3 percent this past third quarter.

Much of this has come from the recent downsizing by U.S. Bank, the U.S. Postal Service and the U.S. Forest Service, which has left more than 75,000 square feet of office space unoccupied in Albuquerque. Overall average asking lease rates were \$16.08 per square foot this past third quarter.



Focus: Native American Development

One of the more-active developers in the region is the Navajo Nation, which has reserves in excess of \$1 billion from coal, oil and natural-gas revenues. This past November, the tribe said it planned to issue a \$120 million bond offering to finance about 50 new projects on its 27,000-square-mile reservation, which straddles the state lines of New Mexico, Arizona and Utah.

This month, the Navajo will open their Northern Edge Navajo Casino near Farmington, N.M. The casino, which will be the largest new employer on the reservation in the past 20 years, is expected to create between 375 and 390 full-time jobs with an annual payroll of between \$10 million and \$12 million, according to the Navajo Nation Gaming Enterprise.

Unemployment

One of the more-encouraging signs for New Mexico's economy has been its declining unemployment rate in the past year. After reaching 8.7 percent in February 2011, the rate sharply declined to a seasonally adjusted 6.6 percent this past September. U.S. Department of Labor figures show a 10.4 percent employment increase in the state's mining and logging industries from September 2010 to this past September. Other sectors that showed improvement in the same 12-month period include financial activities (5.5 percent), education and health services (4.6 percent), and trade, transportation and utilities (4 percent).



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3 Areas to Watch

LAS CRUCES



New Mexico's second-largest city is looking to the stars, with the October 2011 completion of billionaire Richard Branson's nearly \$209 million Spaceport America hangar, a terminus for privately run sub-orbital spaceflight trips. A study by New Mexico State University predicted that Spaceport America will employ 2,300 people with a payroll of \$300 million within the next five years.

SANTA FE



As the nation's third-largest arts market, the capital city was crippled by the drop-off in tourism during the Great Recession, but it is slowly rebounding. This past September saw a 2.2 percent year-to-year increase in leisure and hospitality employment. Apartment occupancy rates increased from 83.3 percent in May 2009 to 93.2 percent this past September, according to CB Richard Ellis.

LOS ALAMOS COUNTY



As the birthplace of the atomic bomb, this tiny county has one of the state's most-vibrant technology sectors. The Los Alamos National Laboratory accounts for \$3 billion of the state's economy and employs roughly 9,000 people, giving the county a 2.9 percent unemployment rate — the lowest in the state.



WHAT THE LOCALS SAY

"We've been very strong in the multifamily market. We have a 4.5 percent vacancy rate and just had two years in a row of double-digit rent increases. Part of that has come from an increase in employment in the tech sector. We expect to see the trend continuing through 2013. After that, there will be some concern about government downsizing, which has a really big impact on this area."

— TODD CLARKE, CEO, NEW MEXICO APARTMENT ADVISORS

Sources: Bloomberg Businessweek, CB Richard Ellis, Ernst & Young, Grubb & Ellis, MSNBC, Navajo Nation Gaming Enterprise, New Mexico Economic Development Department, New Mexico Spaceport Authority, New Mexico State University, New Mexico Tourism Department, Santa Fe New Mexican, University of New Mexico, U.S. Census Bureau, U.S. Department of Labor, U.S. Energy Information Administration