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Commercial real estate gains bypass ABQ

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The Albuquerque metro area appears to be missing out on a trend of very gradual improvement in commercial real estate around the country, according to an analysis of more than 50 cities by Moody's Investors Service.

The local market ranked 42 out of 53 metros for its investment potential in the latest Red-Yellow-Green Update from the New York City-based credit- and debtrating research company. Only two commercial property types locally, apartments and retail, passed the threshold of having an investment upside.

Albuquerque's average score for all commercial property types was 58 on a scale of 0 to 100 in the first quarter, trailing the average composite score of 67 nationwide. The local score hasn't changed much in almost two years.

"I've used the word 'stagnant' to describe the market," said John Ransom of Grubb & Ellis New Mexico. "It may not feel good, but we're not losing ground like some other markets."

The recession and the nature of the local economy have combined to suppress Albuquerque's score, said Jim Chynoweth of CBRE's Albuquerque office, which provides most of the data used by Moody's to rate the local commercial real estate market.

About 6 percent of the metro's jobs are located at Kirtland Air Force Base and Sandia National Laboratories, which are not part of the commercial real estate inventory, he said. Another roughly 14 percent of all jobs are housed in medical facilities, which also are not counted in the inventory, he said.

"A big chunk of what we consider our economy is not reflected in these real estate statistics as they would be in other metros," Chynoweth said.

The gradual improvement in commercial real estate nationwide, especially the downtown and suburban office property types, appears to result from improvements in most of the 10 largest metros like Los Angeles, New York and San Francisco.

Two metros, Washington, D.C., and Honolulu, appear to have missed the worst effects of the downturn in commercial real estate altogether.

Moody's update works like a traffic light from an investor point of view. Green is a go, with any score above 67. Yellow is a caution, any score between 34-66. Red signals high risk, or a score of 33 and below.

Apartments

Apartments or multifamily housing was the highest-rated commercial property type in the update both here and around the country. Albuquerque's scored 79 on its apartment market, well into green territory but below the national average of 86.

As a rule of thumb, apartments generally rate high as an investment, only occasionally dipping into cautionary yellow territory nationwide. The mortgage meltdown that started in mid-2007 and subsequent economic turmoil has made renting a logical housing choice for more people.

"When I was growing up, renting an apartment was a short-term strategy until you could achieve the American Dream of buying a home," said Steve Maestas of NAI Maestas & Ward Commercial Real Estate Service. "There's been a cultural change. Now the American Dream is appearing on 'American Idol.'"

Retail

Albuquerque's retail real estate market scored a 68 in the update, just inside green territory and higher than the national average score of 64.

The local retail market has seen more activity than any other type of commercial / property, said Walt Arnold of Sperry Van Ness/ Walt Arnold Commercial Brokerage. Ironically, at least some of the activity may stem from the metro's tight

job market, he noted. "If you've been downsized or have moved here and can't find a job, the only way to create a job for yourself is to start a business," he said.

The vacancy rate for retail space has been hovering at around 10 percent in the metro, which is a little better than the national average of 13.2 percent in the update.

"In reality, it's half that," Maestas said about the local vacancy rate.

The retail vacancy rate is artificially high because it includes a big chunk of empty space at Winrock Center, he said.

Office

The office real estate market, which is rated in two categories, is almost a tale of two cities when it comes to Albuquerque's scores.

Downtown gets a red light with a score of 31, less than half of the national average of 68, in the central business district (CBD) category. The rest of the local office market scored 46, within range of the national average of 51, in the suburban category.

At only 2.8 million square feet of office space, Albuquerque's Downtown is tiny compared to most of the other cities tracked in Moody's update, Chynoweth said. Manhattan has 363.8 million square feet of office space, for example, while Austin has 8.4 million square feet in its CBD.

"Separating out our CBD is an injustice," Chynoweth said.

Albuquerque's Downtown typically carries a vacancy rate of 15 percent to 20 percent even in the best of economic times, with most of the empty space in obsolete buildings that lack parking, said Scott Throckmorton of Argus Investment Realty.

Noting PNM Resources' plan to vacate the 212,000-square-foot, eight-story Alvarado Square, he said, "Downtown is going to a 30 percent vacancy rate soon, which is an indication of the overall health of the submarket."



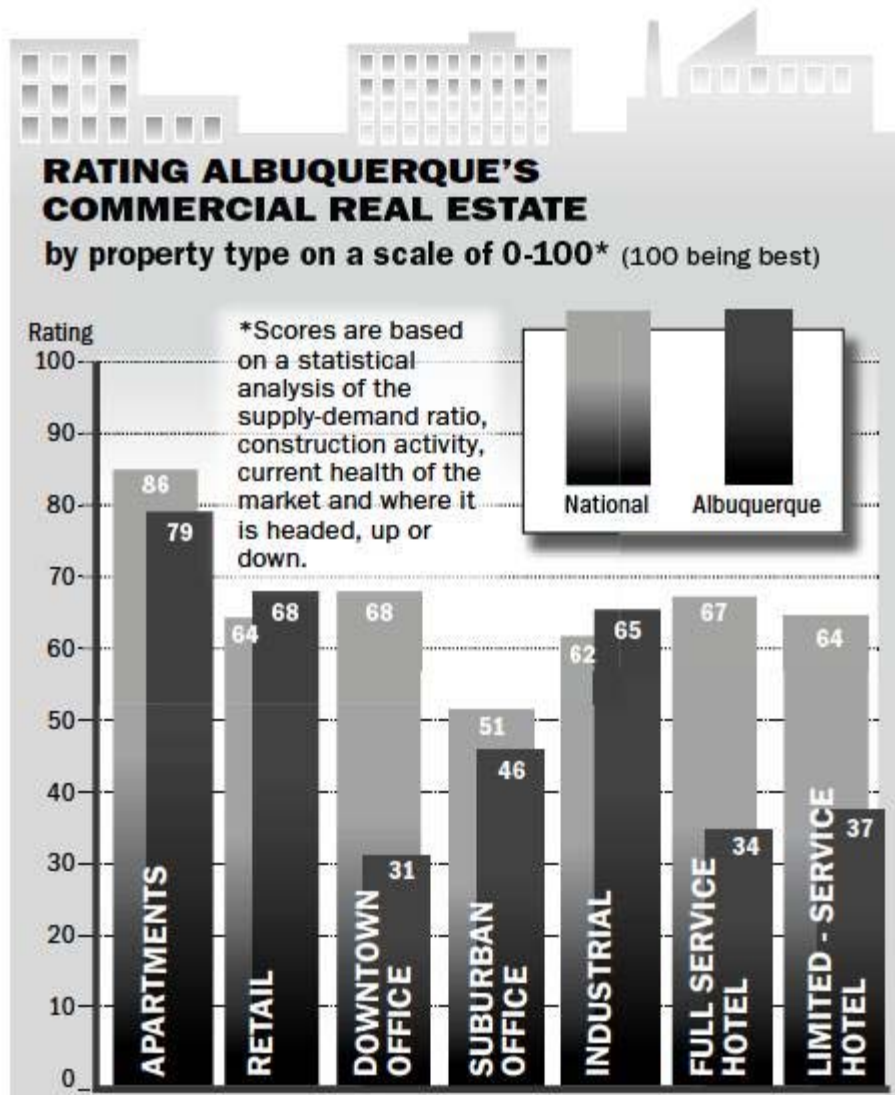
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Apartments/multifamily housing was the highest-rated commercial property type both in the metro and around the country.



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Albuquerque's retail market, represented here by ABQ Uptown, scored higher in the update than the national average.



SOURCE: Moody's Investors Services

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