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Retail a bright spot for real estate

Office, industrial segments stifle metro commercial market

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Commercial real estate continues to reflect the Albuquerque metro area's economic lag as the recovery from the Great Recession gradually spreads across the country.

In the first quarter, the metro's office market took a turn for the worse while the industrial market was stagnant, according to the latest data from the Albuquerque office of Colliers International. The retail market was the bright spot, shored up by a handful of deals.

"Until there's job growth, there won't be that much (positive) activity," said John Ransom, managing director of Colliers' Albuquerque office, formerly known as Grubb & Ellis New Mexico.

As a third-tier or smaller metro, Albuquerque has traditionally lagged national economic trends so it's no surprise that commercial real estate here remains largely mired in recessionlike conditions. The old rule of thumb that the Albuquerque lag is four to six quarters may not apply this time around.

Economic trends, good and bad, typically start in first-tier or primary metros like Chicago, Los Angeles and New York City, then spread to second-tier cities like Charlotte, N.C., Pittsburgh, Pa., and Sacramento, Calif. Last are third-tier cities like Albuquerque, Reno, Nev., and Tulsa, Okla.

"If commercial real estate were a baseball game, then the primary and gateway markets are in their third or fourth innings, the secondary market is in the first, and tertiary is in the dugout," says Malcolm Davies of George Smith Partners, a real estate investment banking firm, in the current issue of Commercial Investment Real Estate, or CIRE, Magazine.

Keeping with Davies' baseball analogy, Albuquerque's retail market appears to be the first commercial real-estate segment to step up to the batter's box.

"The thing that's interesting about retail is it's not as dependent on job growth or supply and demand as office and even industrial," said Steve Maestas, managing partner of NAI Maestas & Ward Commercial Real Estate Services.

"It's concept driven," he said. "What you're seeing are changes from a concept standpoint. In general terms, the participation of retailer and consumer is moving from a transactional event to an experiential event."

Consumerism and retail's constant reinvention of itself keeps it comparatively vibrant in a real-estate context. Almost 300,000 square feet of retail space filled up in the first quarter, dropping the retail market's vacancy rate to 7.8 percent from 8.1 percent in the fourth quarter of 2012 and 9.3 percent in the first quarter of 2012.

Just over half of the activity was the opening of the 165,000-square-foot Target store in Uptown, said Ken Schaefer, director of brokerage services at Colliers. Potomac, Md.-based Total Wine, Pleasanton, Calif.-based DD's Discounts and several other national retailers also opened in the first quarter, he said.

The flurry of openings puts a good face on the retail market, which is still coping with restrained consumer spending and the overall anemic local economy, said both Ransom and Jim Chynoweth, managing director of commercial real estate services firm CBRE.

Big chain retailers are focusing on expansions in first- and second-tier markets with rebounding economies in the region, such as Denver, Las Vegas, Nev., Phoenix and cities in Texas, Ransom said.

"We're going to get some deals, but there's faster growth and more energy in surrounding markets," he said. "There's only so many deals that will get done this spring and the focus (among retailers) will be on our neighbors."

While the first quarter's 7.8 percent vacancy rate indicates a strong retail market, Chynoweth said, "The back story is

the aggregate net operating income of all the shopping centers — we don't have a way of tracking this — probably looks pretty similar to what you see in office and industrial.”

Some landlords will carry struggling retailers rather than let them surrender their space, he said. The fear is the domino effect of one store closing leading to another store closing and then another, he said.

The office market

Albuquerque's office market, after three years with a vacancy rate stuck between 18 percent and 19 percent, took a turn for the worse in the first quarter. The vacancy rate shot up to 21.2 percent, with the vacancy rate in the Downtown submarket leading the way at 31.5 percent.

“A majority of this increase can be attributed to PNM Resources' former 250,000-square-foot space (in Downtown) hitting the market,” Schaefer said. “Another 36,000 square feet of office space was vacated by two government tenants that moved into an owned office and an industrial ‘flex’ building.”

The trend of government agencies downsizing or consolidating is expected to continue, Ransom said. The consensus view is that sequestration will weigh heavily on the office market, not just with government agencies but government contractors as well.

“Recessions have been tempered in the past by government growth,” Maestas said. “This time around, that growth is nonexistent.”

The first quarter's 21.5 percent office vacancy rate is approaching the alltime high of 22.4 percent set in 1989, according to historic data kept by CB Commercial, a predecessor company of CBRE, Chynoweth said. The average office vacancy rate over the past 25 years is 15 percent, he said.

“A lift in job growth will get the (office) market rightsized pretty quickly,” he said.

Industrial market

The industrial vacancy rate was 10.2 percent in the first quarter, down slightly from 10.3 percent in the fourth quarter of 2012 and up from 10 percent in the first quarter of 2012, according to Colliers data.

In the six years since the first quarter of 2007, when the vacancy rate was 6.3 percent, 1.6 million square feet of primarily warehouse space has gone empty in the industrial market. The vast majority of that space was vacated by construction suppliers, from appliances and furnishings to raw material, Chynoweth said.

“Look for housing construction to be what drives up the industrial market,” he said. “That's the industry that has to be flowing.”



PNM consolidated its operations by moving out of the Alvarado building on the left and into the older building on the right.



JOURNAL FILE

Finishing touches are put on the new Target at Uptown last month. The retail sector is only one in commercial real estate showing an uptick in business.



RUSS BALL / JOURNAL