ALBUQUERQUE METRO | LAND & INDUSTRIAL

# Q4 2021 Market Review

## Lease Market Overview

**How low can it go?**

News of speculative industrial space finally under construction in Albuquerque is welcome, but year-end vacancy rate figures insist that far more is required to avoid stifling what could be healthy growth in the real estate market.

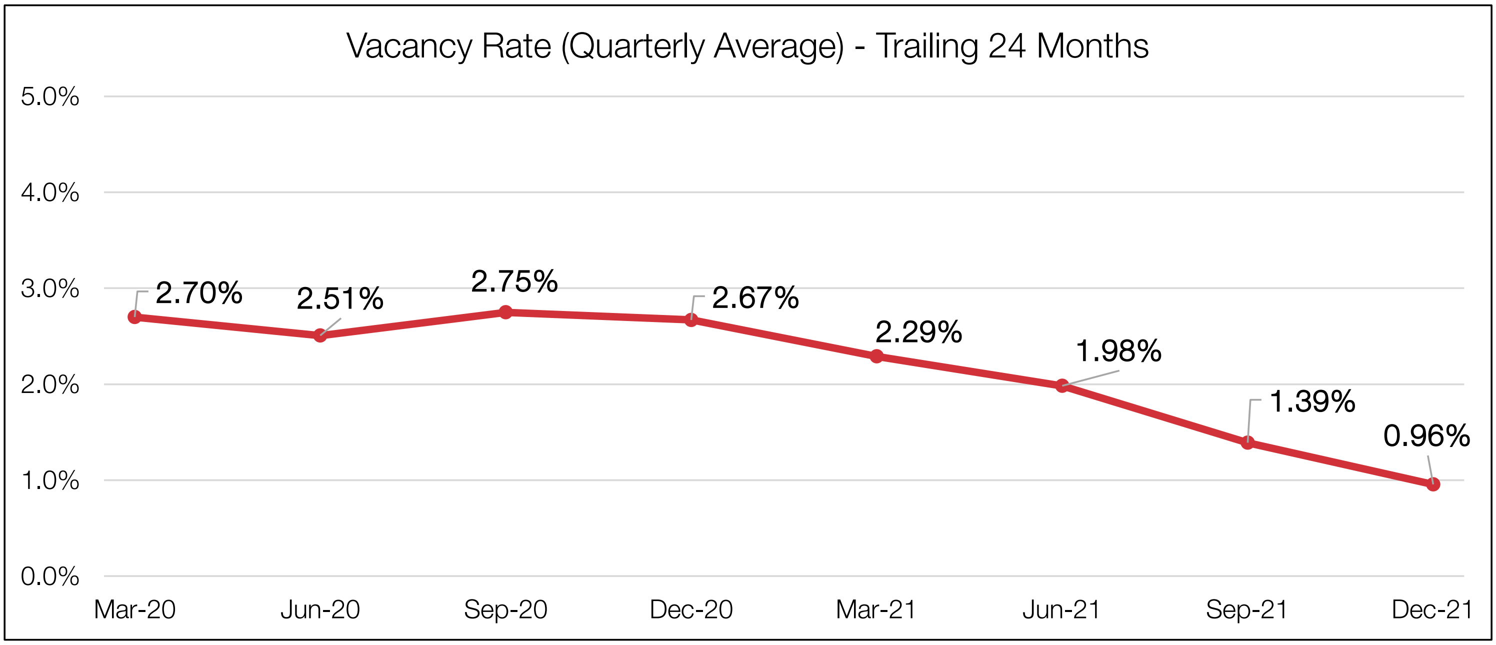
The monthly average vacancy rate in the fourth quarter of 2021 hit a new low (surprised?) of 0.96%, down almost half a percentage point from the previous quarter and the first time the figure has been below 1%.

Median lease rates on a modified gross basis are down slightly (from $10.12/SF in Q3 to $10.01/SF in Q4) but the median asking triple-net lease rate—a critical variable in the math for justifying new construction—is up for the fifth consecutive quarter at $8.79/SF. This represents an 18% increase over last year's fourth quarter median NNN lease rate ($7.50/SF) and indicates that landlords are taking a more aggressive stance amid historic scarcity in the market.

Such rate increases, though unpleasant for tenants, are necessary to spur more development.

Several bulk distribution warehouse projects (30,000 SF or larger) are in the works, yet there remains a glaring void of plans for smaller units in the 1,200 – 10,000 square foot range. As the market for large volume space begins to be satisfied, the next lucrative opportunity for developers contemplating industrial projects will be space small space—but not necessarily small scale. It has been decades since a multi-tenant industrial park has been built in Albuquerque and market trends indicate that at least one (if not more) is needed.

While the outlook for 2022 is favorable overall, there is a pressing need for more space. The vacancy rate cannot fall much further.

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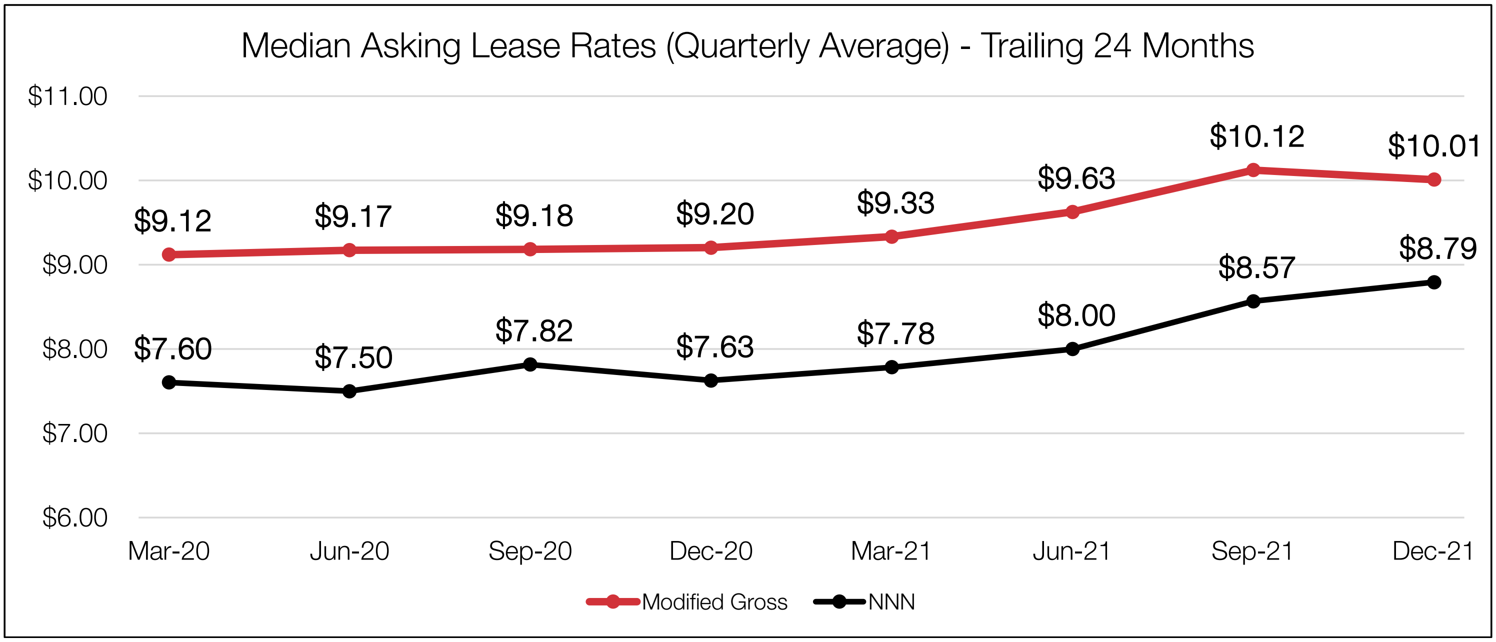


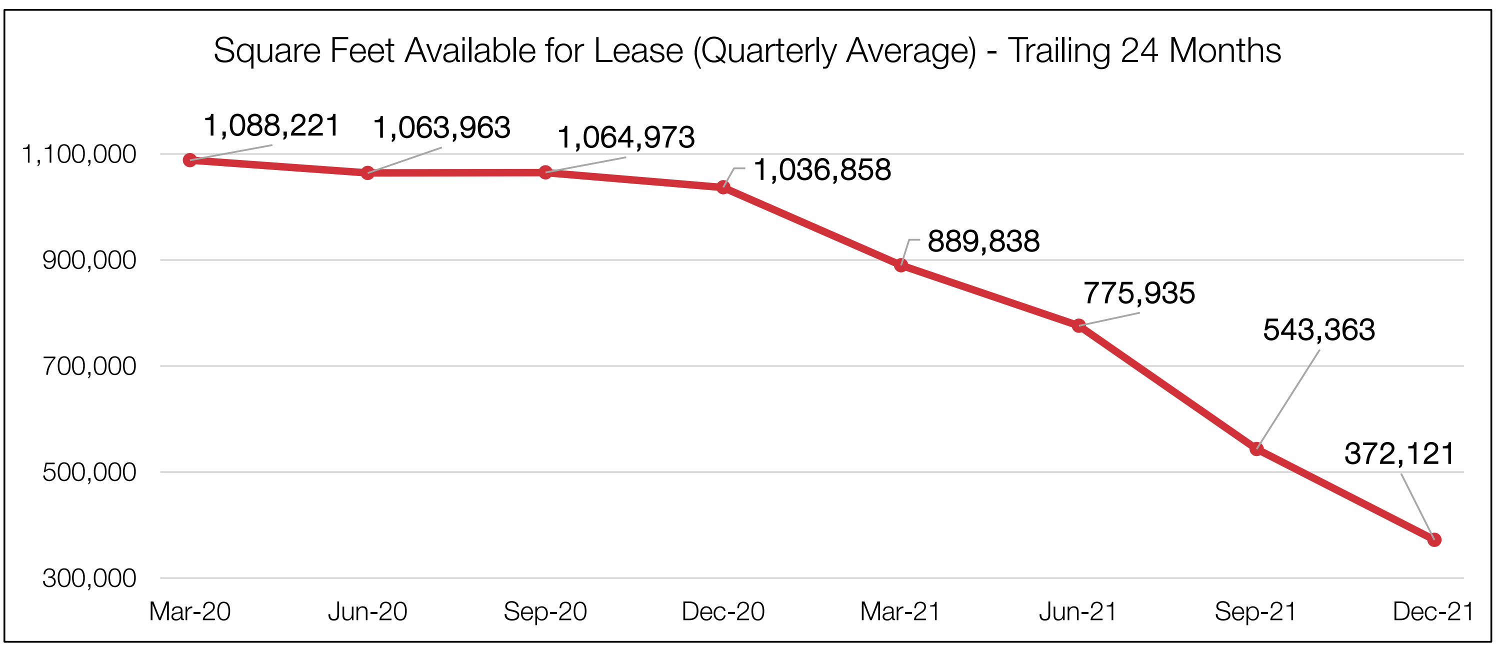

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## Sale Market Overview

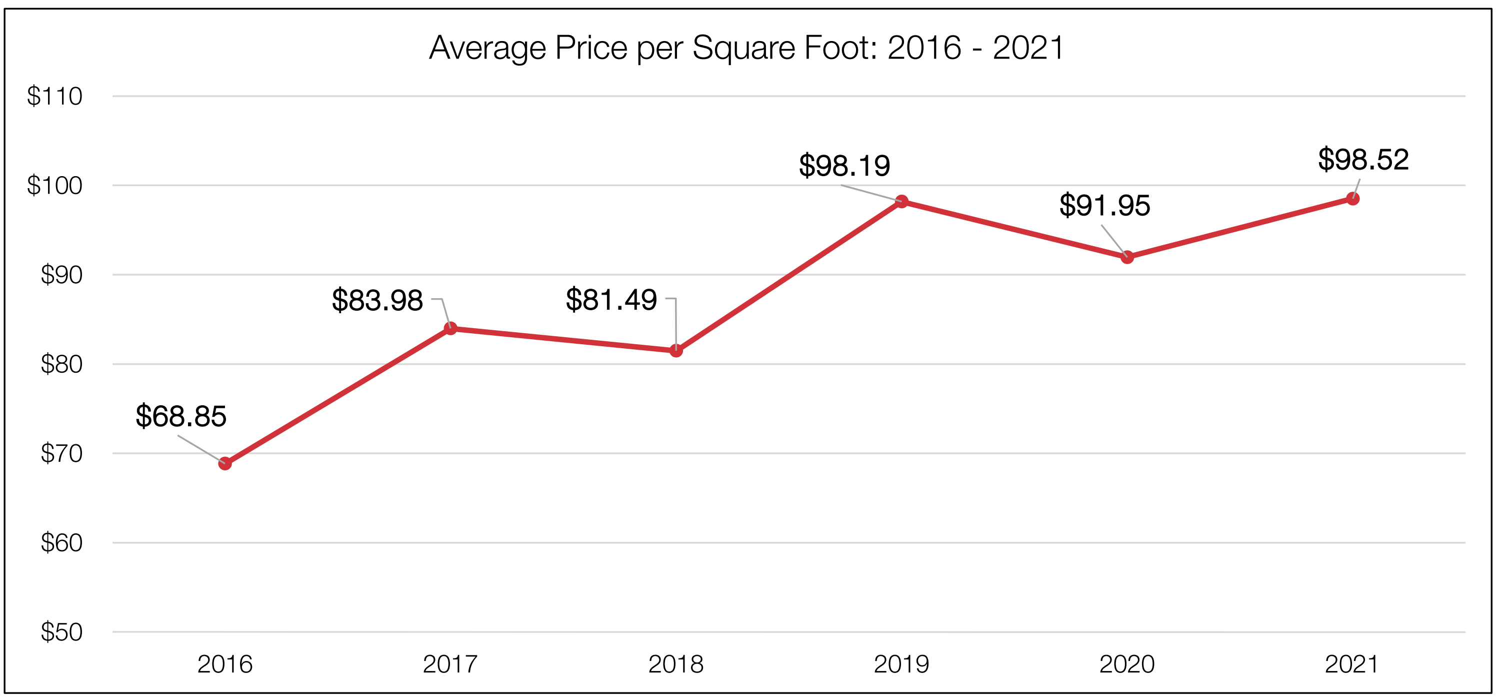
**High construction costs: helpful and harmful all at once**

Elevated rent costs, low interest rates, and excess liquidity combined to promote a dynamic sale market for industrial real estate in 2021, one that performed nearly as strong as the market for leased space.

In recent years the average value per square foot for vacant, owner-occupied industrial real estate has surged from just under $69 in 2016 to roughly $99 at the end of 2021. Properties located in Albuquerque's favored North I-25 Corridor continue to realize the highest price points, but previously neglected submarkets are catching up. Amazon and Netflix have brought new attention to the West Mesa and South Valley, peripheral areas where savvy buyers once sought undervalued opportunities. Today, those submarkets are among the most competitive.

Despite this noteworthy appreciation, prices have not yet reached a level commensurate with the cost of new construction—a good sign that the upward trend in property values will continue in 2022. Interest rate increases could be a mitigating factor, though, as Federal Reserve officials have begun advocating hikes in response to 40-year high inflation rate. However, as long as construction costs (which have skyrocketed due to supply chain delays and labor shortages) limit new space coming to the market, demand for existing space should be durable for the foreseeable future.

On the investment side, cash-flowing industrial properties are arguably the most coveted asset class since the Pandemic began in March 2020. Low vacancy rates and a tenant base largely unimpacted by COVID-19 mitigation efforts have compressed cap rates below 8% for local credit, multi-tenant properties. National credit and single tenant investment properties are trading below a 7% cap rate, but only if they can be found. In a market that is tight across the board, quality, cash-flowing investments are proving to be the most difficult asset to acquire.

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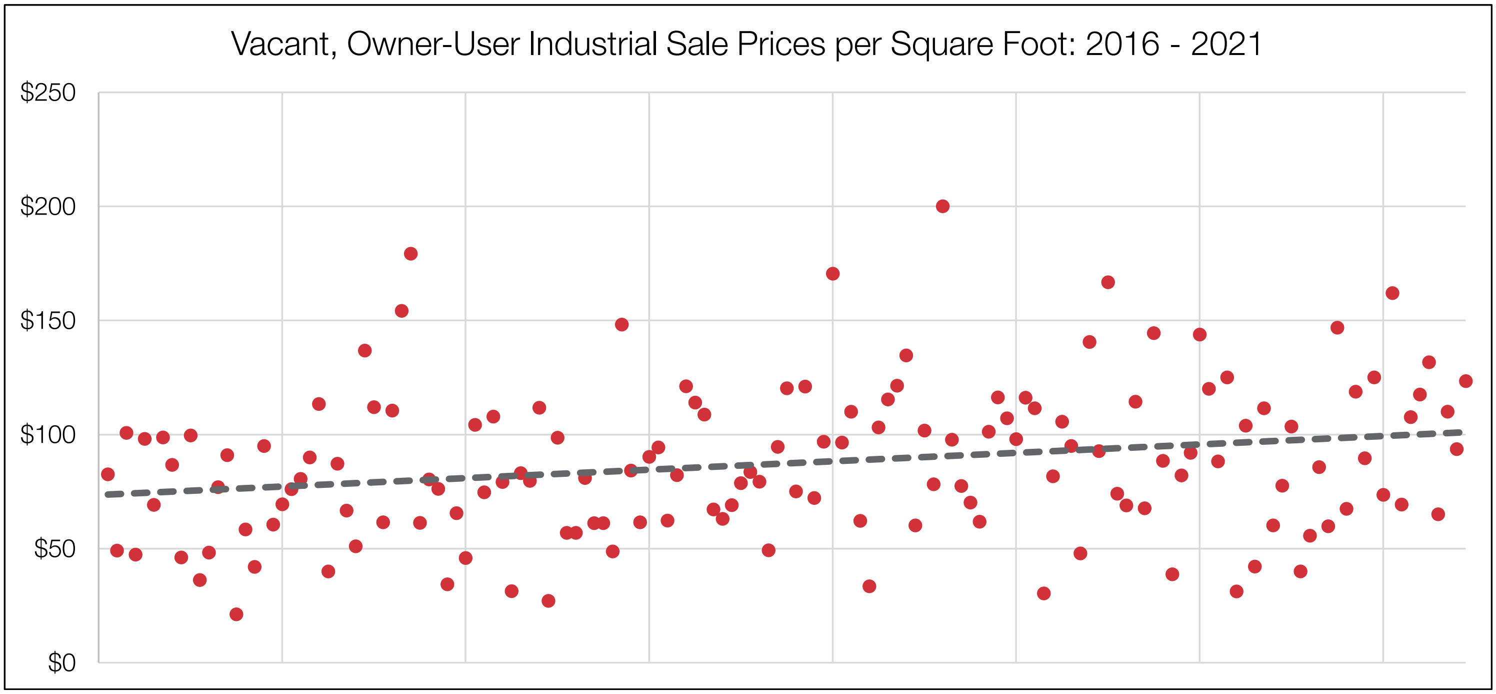
## Sale Market Overview





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*Research and Analytics provided by Riley McKee*

Since 2016 I have been a member of NAI SunVista's brokerage team specializing in landlord and seller representation within the industrial and logistics real estate asset class.

With a background in finance and accounting, my approach to asset valuation, marketing, negotiations, and transaction management is heavily influenced by data. In an increasingly competitive industrial real estate marketplace, informed analysis of accurate information is vital, and I work every day to provide it.

Clients I have helped acquire, lease, or dispose of real estate assets include Sombra Cosmetics, The Good Samaritan Society, Kemper Personal Insurance, CEI Enterprises, Junk King, Morrison Supply Company, Univar Solutions, Masek Golf Cars, Terminix, MW+C, Bath Fitter, US Med Equip, Ritchie Bros. Auctioneers, Watco Supply Chain Services, Bio Trans, Johnson United Storage & Moving, Southwest Block, and Western Refining, among others.

Industrial real estate has a very bright future—I can help you take advantage of it.