

Q1 2022 Market Review

Vacancy rates level off as new construction gathers momentum

Research and Analytics provided by Riley McKee

For the first time in over a decade, speculative new construction of industrial real estate is underway in Albuquerque. Roughly 230,000 square feet of distribution warehouse space in the West I-40 and South I-25 Corridor submarkets is projected to be finished before the year's end with another 360,000 square feet of similar space breaking ground in the coming months.

While completion of these new buildings will ease downward pressure on the supply of available space, demand dynamics remain very strong. The vacancy rate descended slightly from 0.96% in December of last year to 0.89% in the first quarter of 2022, yet another record low. This trend is mirrored in the supply of available space which currently sits at just over 350,000, down from 372,000 square feet at the end of 2021.

Increasingly aware of these circumstances, landlord expectations for rent payments have dramatically shifted. The median triple-net (NNN) asking lease rate is \$9.43/SF, up 7.28% from the same figure at the end of last year. The median modified gross lease rate in Q1 of 2022 (\$11.75/SF) is a staggering 17% higher than it was just three months ago (\$10.01/SF).

Fast Facts



Largest Vacancy: 6901 Pan American Pl. NE
42,935 SF | Manufacturing/Warehouse



Median Vacancy: 5821 Midway Park Blvd. NE
5,390 SF | Distribution



Smallest Vacancy: 103 Rio Rancho Dr. NE
1,600 SF | Office/Warehouse/Flex

At some point in 2022—possibly even now—the vacancy rate is likely to finally bottom out. However, demand for industrial real estate is poised to remain high. The aforementioned new construction projects are but a small fraction of Albuquerque's market and with an average size of about 76,000 square feet, they only cater to a narrow pool of large tenants. There remains a noteworthy shortage of (and high demand for) space smaller than 20,000 square feet that does not currently have the prospect of new construction to look forward to. Moreover, New Mexico's recent legalization of marijuana and the Federal Reserve's planned interest rate hikes throughout 2022 benefit the market for leasable industrial real estate. The former will result in demand for space for growing and processing while the latter will increase the cost to borrow funds, transitioning the balance of affordability for users of industrial real estate away from purchasing and in favor of leasing.

New Construction Overview

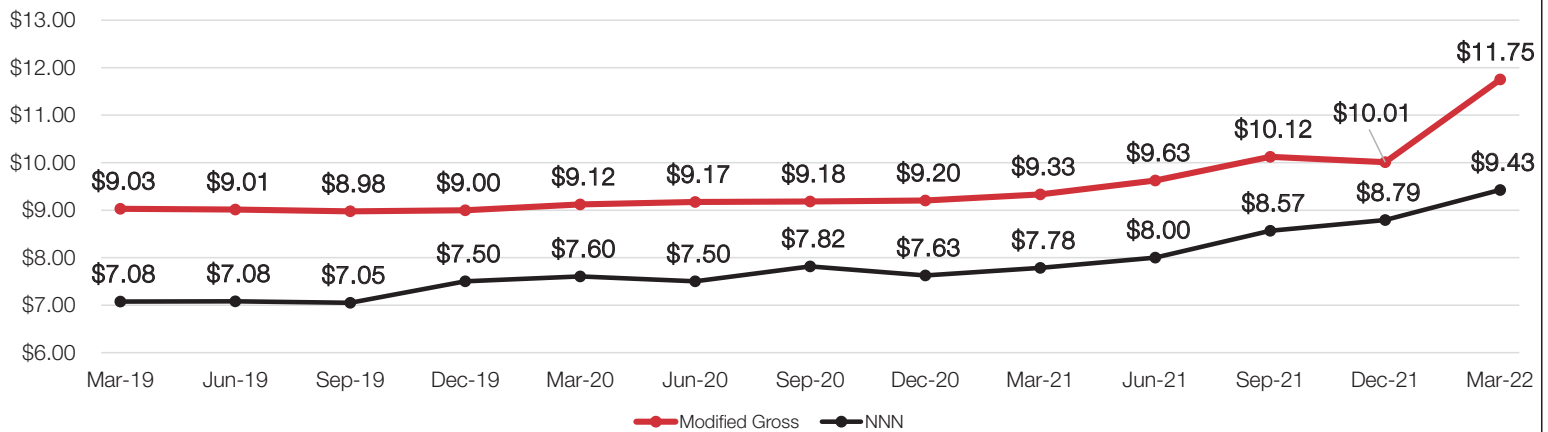
Status	Total Square Footage	Anticipated Completion
Under Construction	233,821	Q2 2022 - Q4 2022
Permitting	360,501	Q3 2022 - Q1 2023
Proposed	705,417	TBD
Total	1,299,739	
Smallest Project	7,448	-
Average Project Size	76,326	-
Largest Project	247,990	-

 **Median Office to Warehouse Ratio**
30:70

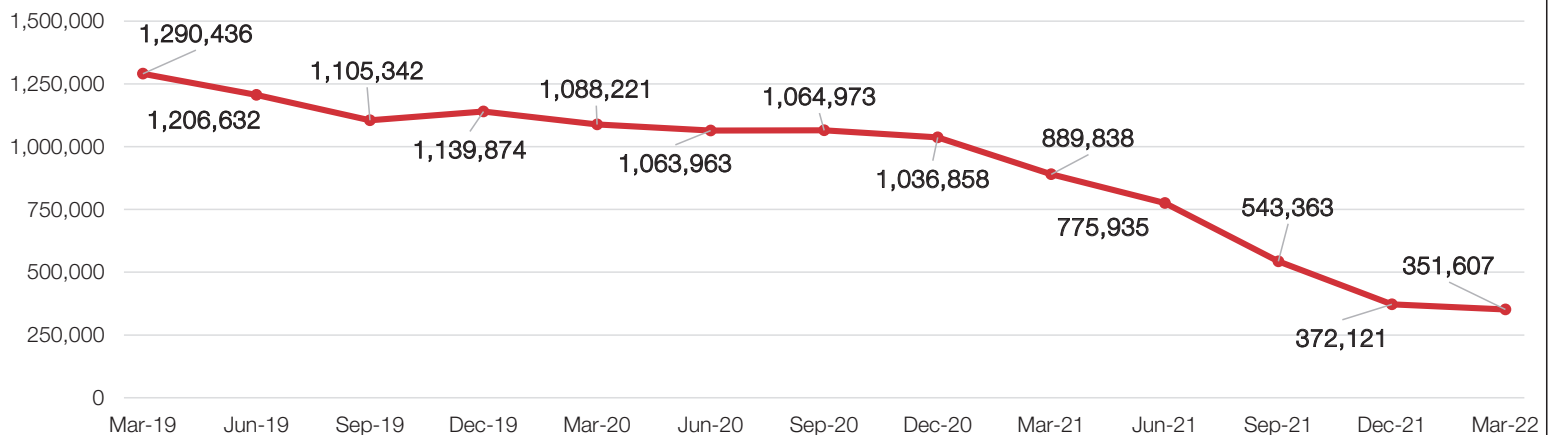
 **Quarterly Net Absorption**
-140,937 SF

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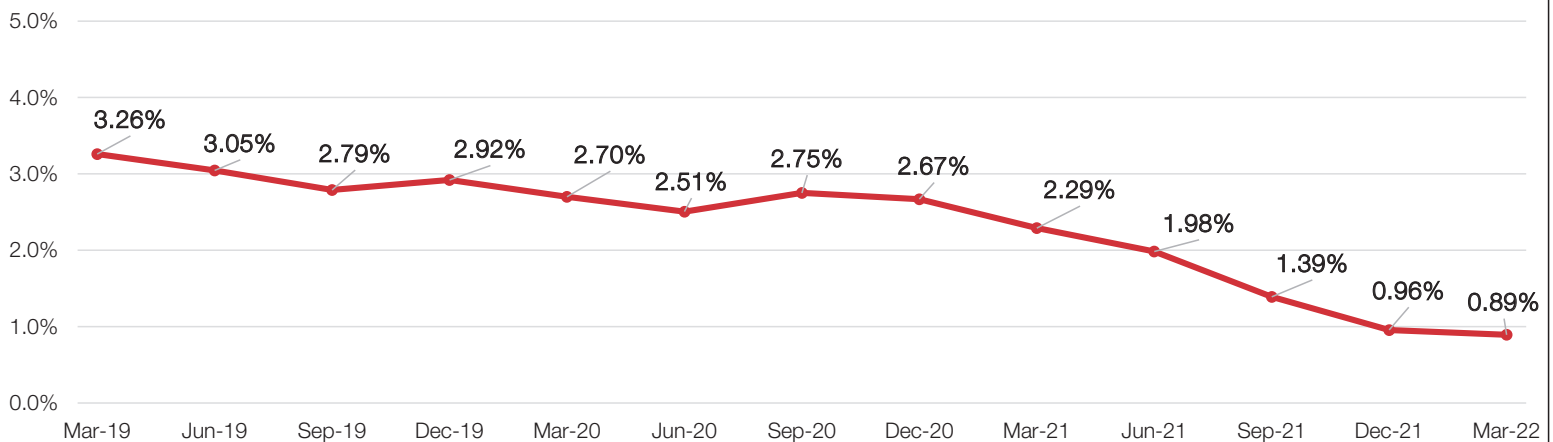
Median Asking Lease Rates (Quarterly Average) - Trailing 36 Months



Square Feet Available for Lease (Quarterly Average) - Trailing 36 Months



Vacancy Rate (Quarterly Average) - Trailing 36 Months



The information contained herein was obtained from sources deemed to be reliable. We have no reason to doubt the accuracy of information, however, we cannot, and do not, make any guarantees. The information and perspectives contained herein is not a substitute for a thorough due diligence investigation.