

2022 Q4 Lease Market Overview

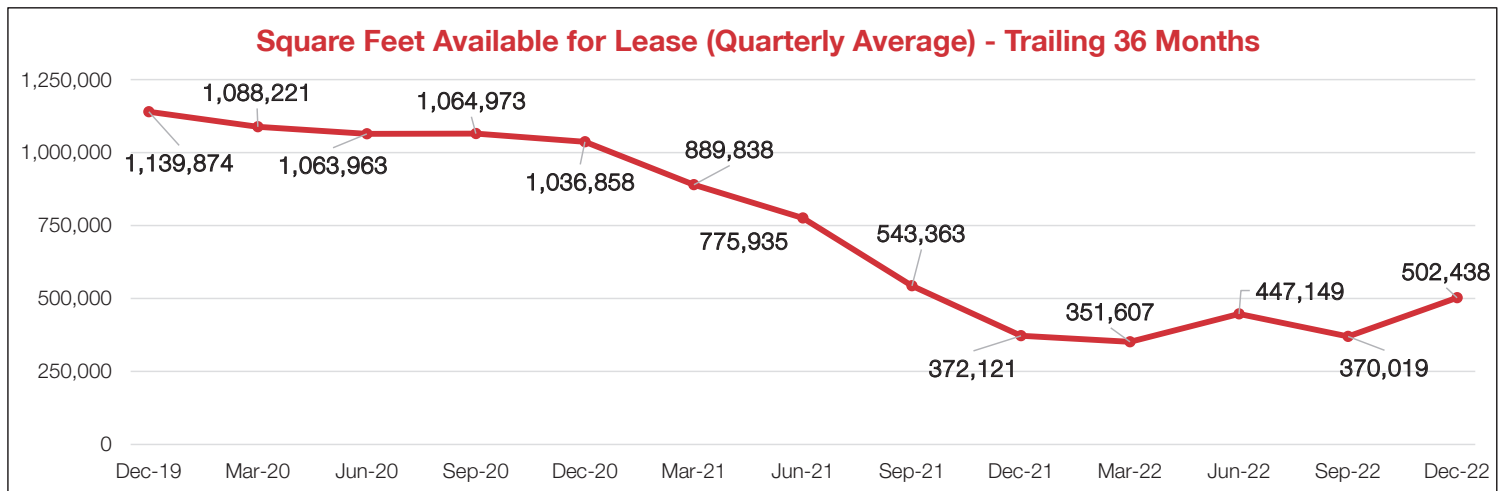
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Lease rates are on the rise...will the vacancy rate follow?

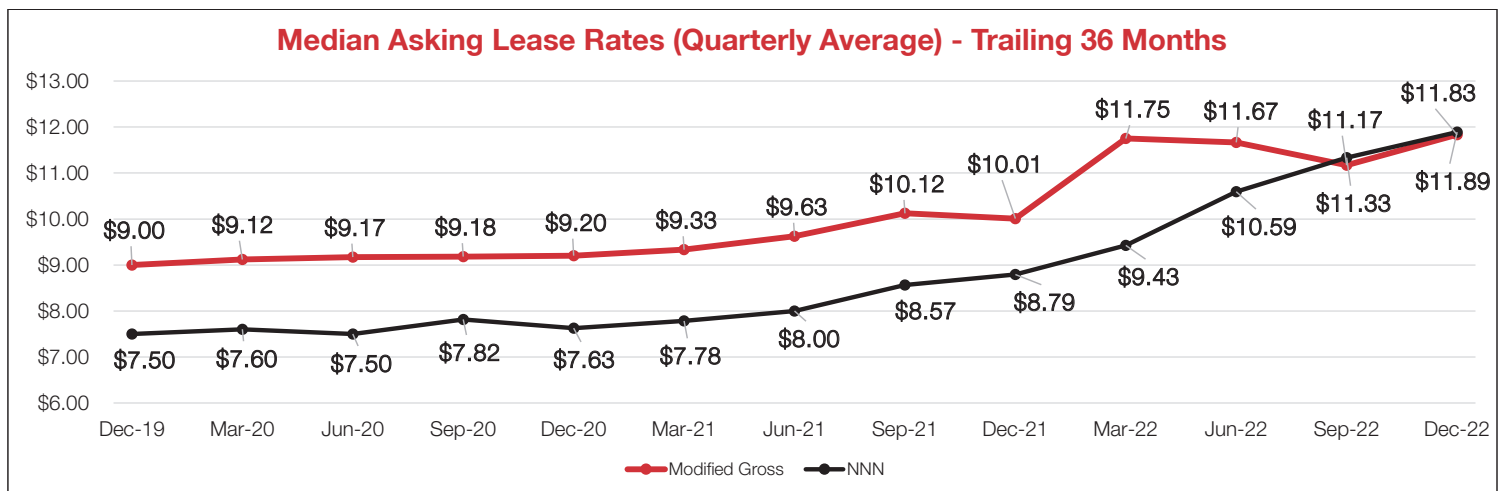
In recent years the vacancy rate for industrial real estate in Albuquerque has set a new record low just about every quarter. Once it fell below 1% in Q4 2021, it was only a matter of time before the trend would reverse. Figures for Q4 2022 indicate this reversal may be underway with the vacancy rate increasing to 1.27%.

This is not necessarily bad news, though. Long awaited new construction of space is nearing completion, growing the size of the market and giving tenants more and better options to choose from.

- The sum total of existing space available for lease is now more than 500,000 square feet for the first time since September 2021. This can be viewed in two ways: perhaps the market is softening after several historically strong years; it also could be the result of a new equilibrium in the supply and demand curves as lease rates have aggressively pursued demand for space in recent quarters.



- The median triple-net (NNN) asking lease rate is nearing \$12 per square foot. A significant majority of vacant space now has a double-digit price tag.



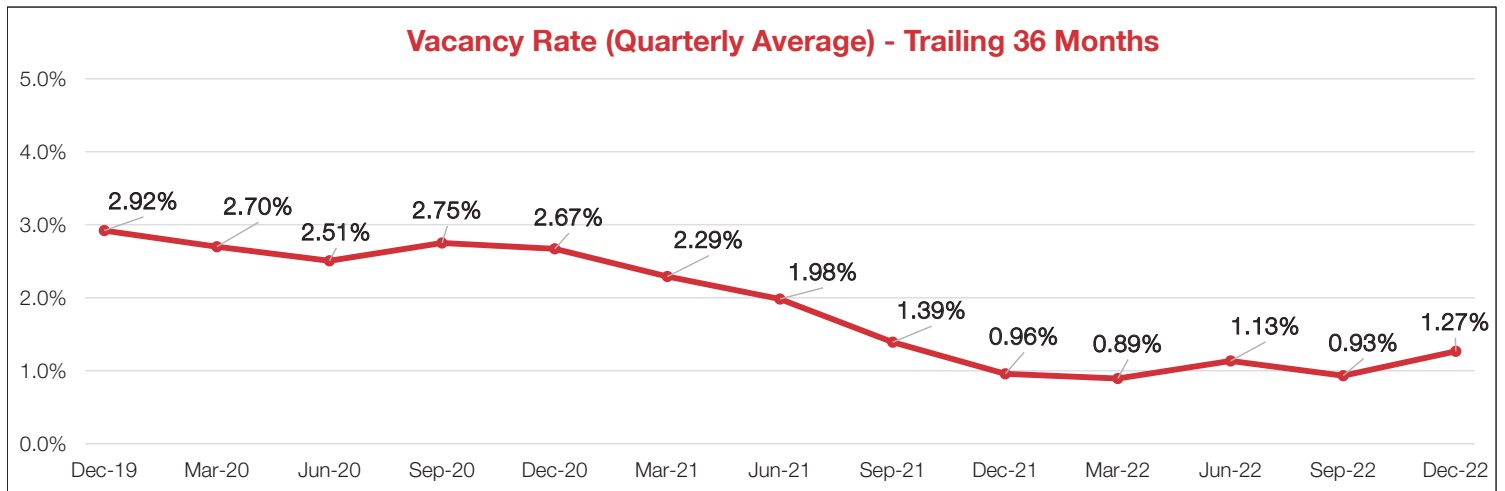
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• Speculative buildings under construction that have been referenced in previous editions of this report are nearing completion. By the end of the second quarter of this year, several will be available to occupy. Consistent leasing activity at these projects should lead to more, with a backlog of 2,000,000+ square feet of proposed space currently being marketed but not yet under construction. Costs and interest rates continue to be a challenge but have thus far slowed, rather than stopped, projects moving forward.

New construction of smaller space with unit sizes ranging between 2,500 and 20,000 square feet remains a rarity. Only one such project—a 15,000 square foot office/warehouse in Rio Rancho—is underway while a few others have been proposed.

What's the outlook for 2023? For the most part, more of the same. Recent increases to the vacancy rate still pale in comparison to the overall lack of quality space available. If figures presented in today's report were doubled, the total amount of vacant space in the market would just barely exceed 1,000,000 square feet, increasing the vacancy rate to 2.54%. Both numbers are comparable to market conditions in December 2020, hardly a weak time in the Albuquerque industrial real estate market.



NEW CONSTRUCTION OVERVIEW:

Status	Total Square Footage	Anticipated Completion
Under Construction	452,319	Q1 2023 - Q4 2023
Proposed	2,005,019	TBD
Total	2,457,338	
Smallest Project	7,000	-
Average Project Size	87,762	-
Largest Project	250,000	-

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NAI SunVista understands the unique real estate needs of the land and industrial communities. Our Land and Industrial Division advisors have extensive experience in developing customized solutions for our clients in manufacturing, assembly, warehousing and distribution, as well as those looking for vacant land.



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2022 Sale Market Overview

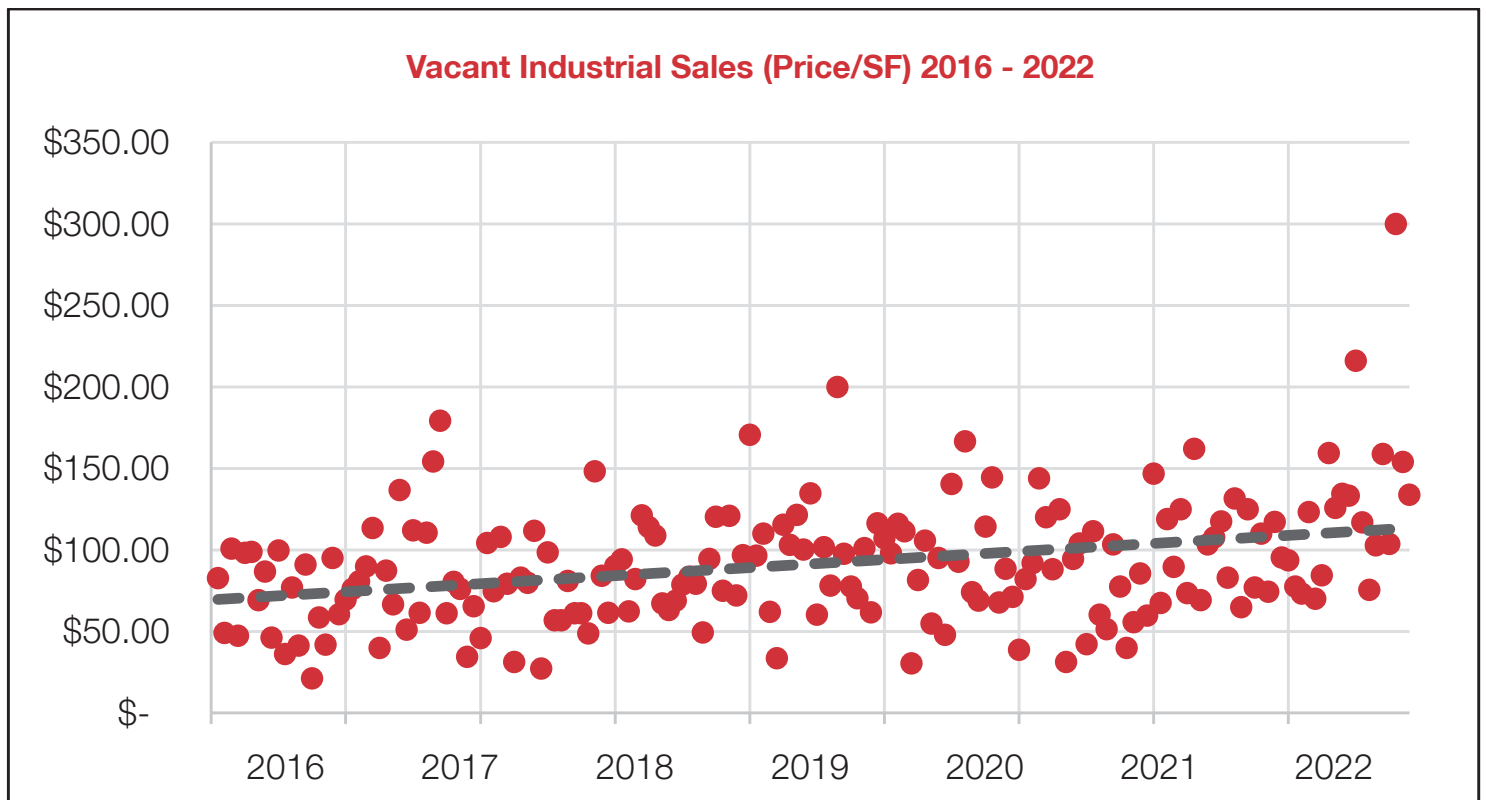
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Despite rising prices, vacant industrial buildings continue to be more affordable than new construction

2022 was another banner year for sales of vacant industrial buildings in Albuquerque and Rio Rancho. The median price per square foot now comfortably exceeds \$100 with less variance between submarkets than ever before.

While the North I-25 Corridor still commands the highest prices per square foot, other submarkets are catching up. The South I-25 Corridor is emerging as infrastructure projects (like the recently completed I-25/Rio Bravo Blvd. interchange and the Sunport Blvd. extension to Broadway Blvd. that is currently underway) have improved access to the submarket and spurred investment. Rio Rancho and the Southeast Heights are both seeing rejuvenated market activity due to expansions of the Intel manufacturing facility and multiple initiatives at Kirtland Air Force Base and Sandia National Labs. Midtown Albuquerque and the North Valley continue to be popular due to their centralized location.

In sum, regardless of where a given vacant industrial property is located, demand is present.



These conditions are expected to carry on throughout 2023, though there might be a slight taper due to recent (and expected future) increases to interest rates. While higher than in recent years, rates are still within a manageable range that shouldn't price well capitalized buyers out of the market. Plus, as recent inflation data indicates its rate of growth is slowing, interest rate increases should follow suit.

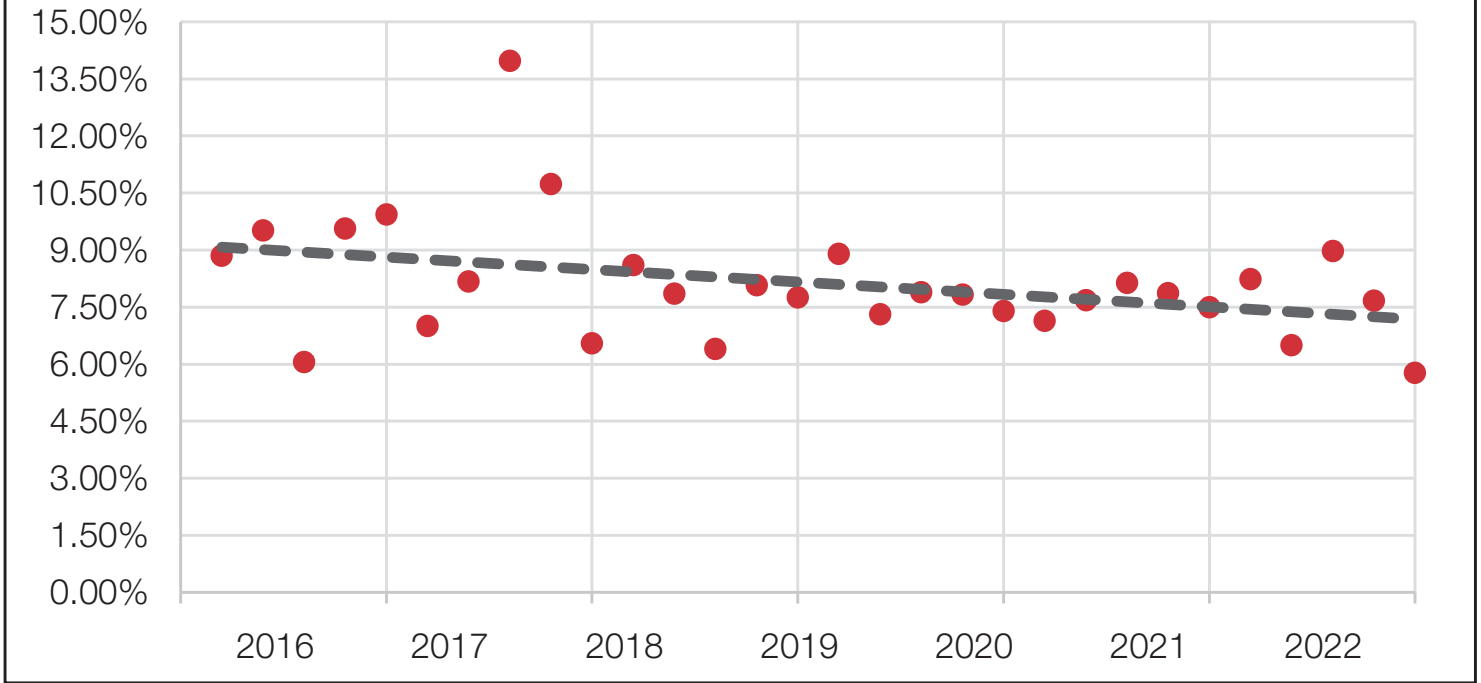
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Cash flowing industrial properties continue to be an attractive investment

Sales of cash flowing industrial properties continue to be strong, though there's less data as would be sellers are finding it difficult to justify parting with high performing assets. Several buildings traded at a CAP rate below 7%, even with local credit tenants and shorter lease terms. An expectation that lease rates will continue to rise undergirds most of these acquisitions. Investors are willing to accept lower returns in the near term because the future income potential of industrial assets is so compelling. This expectation is in line with data reported on earlier in this report. Unless and until new space is brought to market landlords will continue to have considerable leverage.

Investment Sales (CAP Rate) 2016 - 2022



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