

2023 Q4 Lease Market Overview

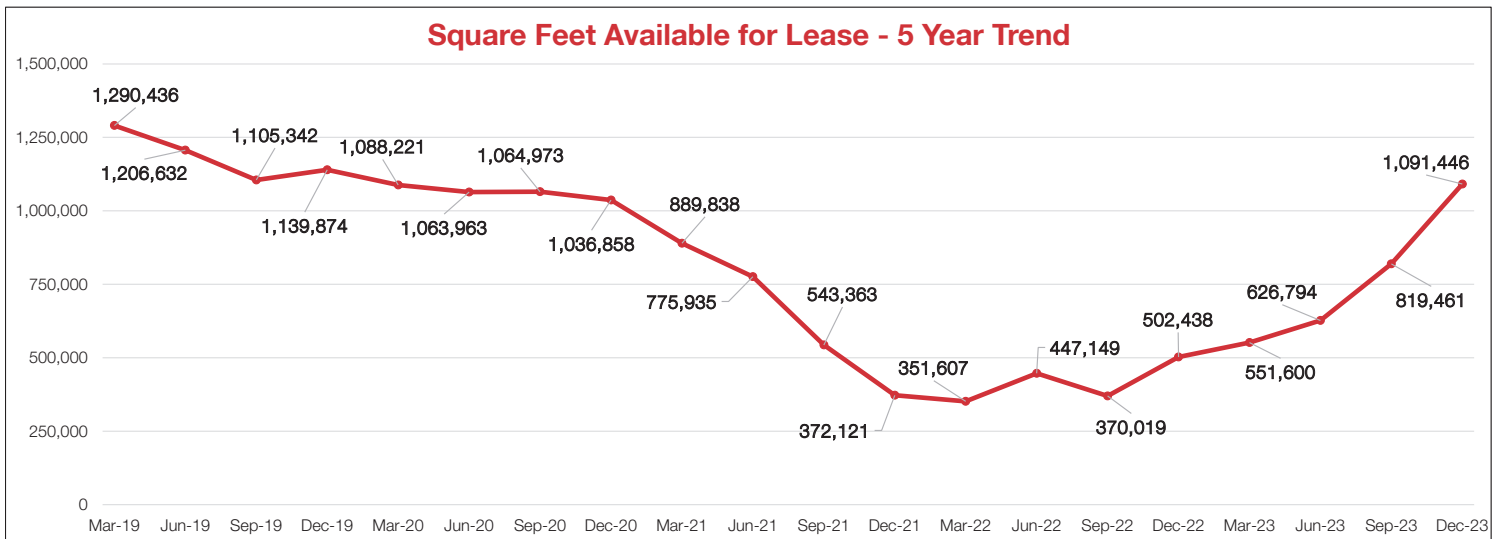
ALBUQUERQUE | INDUSTRIAL REAL ESTATE

Vacancy rate increases are accelerating; a troubling sign or a return to normalcy?

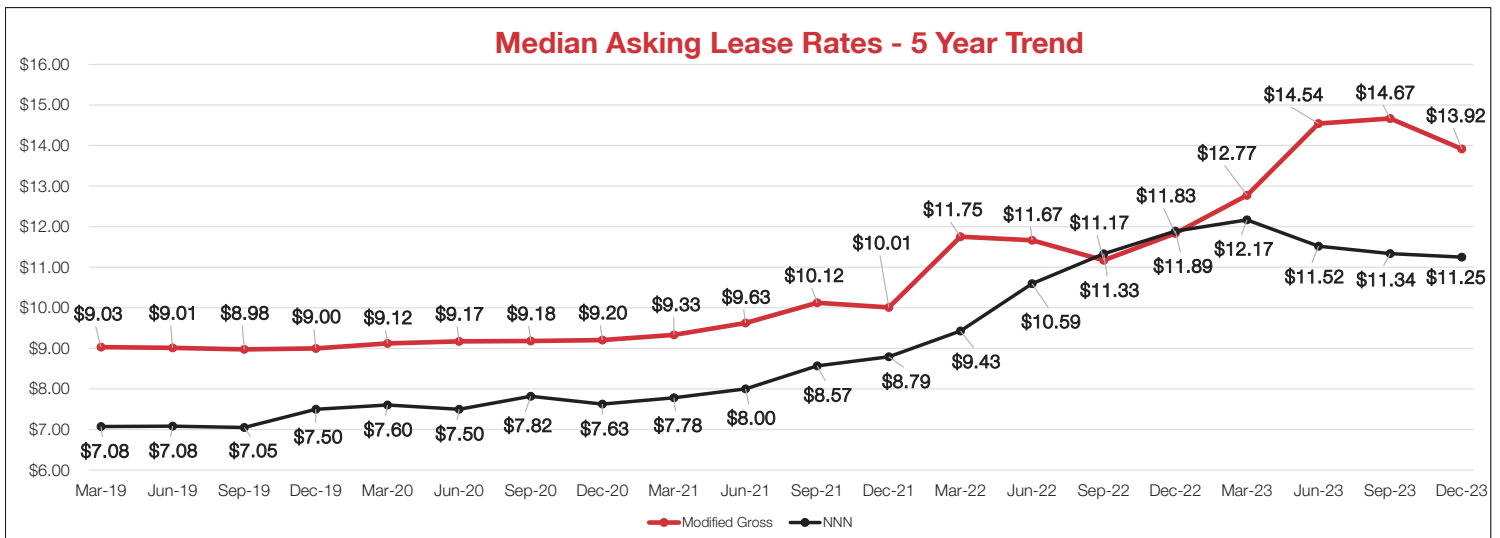
At 2.72%, the vacancy rate for industrial real estate in Albuquerque has reached a two year high. The market is finally normalizing after several years of extremely limited supply.

The sum total of vacant space now exceeds 1,000,000 square feet for the first time since 2020. New construction, along with a couple of bulk vacancies (more on that below), are primary contributors to this increase. Highlighted in the last edition of this report was the completion of two new buildings (bulk distribution warehouses located at 9210 Daytona Rd. NW and 3750 Prince St. SE, respectively) which combined, contribute roughly 200,000 square feet of space to the overall vacancy rate (as of this writing).

- In late November, two large vacancies came to market: 4901 Rockaway Blvd. NE, a 50,000 square foot multi-tenant industrial warehouse in Rio Rancho and, more notably, 9201 San Mateo Blvd. NE, a 475,000 square foot manufacturing facility formerly occupied by Honeywell. Both properties were recently acquired by a group of investors based in Denver, CO and offer unique opportunities to the market. Rio Rancho now has more vacancies (and thus more opportunity for tenants) than it has in years while the former Honeywell facility (demised into 20,000 – 50,000 SF units) is a bulk offering in Albuquerque's most in demand North I-25 Corridor submarket.



- 9201 San Mateo Blvd. NE is far and away the largest vacancy on the market, though that could change quickly as portions of the building are leased and it can no longer be offered as contiguous space. The smallest vacancy is a 995 square foot office/warehouse/flex space located at 8411 Firestone Ln. NE.



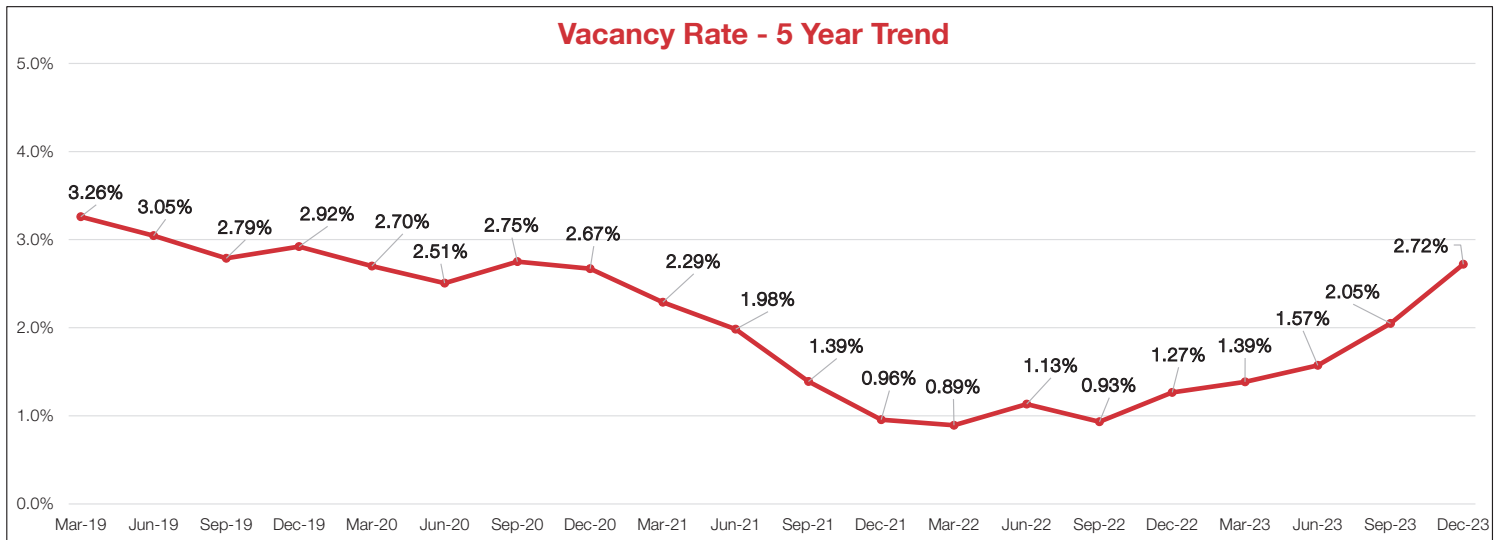
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- The median triple-net (NNN) asking lease rate continues to stabilize in the low to mid \$11.00 per square foot range. Of the 78 spaces currently on the market, only 7 have an asking price below \$10.00 per square foot. Modified gross lease space is making a bit of a comeback. After nearly disappearing as a category in recent years, there are currently 21 properties with that lease structure on the market with a median asking lease rate of \$13.92/SF.

In the first, second and third quarters of 2023 there were no new construction starts to report. High construction costs, interest rate increases, and slow absorption of other new construction projects are likely all to blame. However, developers appear to be reengaging with new buildings underway in the North I-25 Corridor (a 75,000 SF bulk distribution facility and a 10,000 SF multi-tenant office/warehouse facility) and near I-40 and Unser (an 86,000 SF multi-tenant bulk distribution facility). Based on typical construction timelines, each of these projects should be completed near the end of 2024/start of 2025.

While vacancy is now higher than it's been in several years, its increase is largely attributable to healthy market indicators: new construction, renovation or conversions of underutilized properties, and a broad based reassessment of the value of industrial real estate.



NEW CONSTRUCTION OVERVIEW:

Under Construction	Q3 2023	Q4 2023	% Change
Total Square Footage	0	172,654	-
Number of Buildings	0	3	-
Average Project Size (SF)	0	57,551	-
Proposed/Marketed	Q3 2023	Q4 2023	% Change
Total Square Footage	1,533,413	1,360,759	-11.26%
Number of Buildings	16	13	-18.75%
Average Project Size (SF)	95,838	104,674	9.22%

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2023 Sale Market Overview

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Existing buildings trade at a premium as new construction remains prohibitively expensive

Despite not getting near as much attention, the sale market for industrial real estate in Albuquerque is arguably more robust than the lease market. In 2023, the median price per square foot for vacant buildings purchased by owner-users was \$138.89 per square foot, up from \$125.66 in 2022.

High construction costs have definitely played a role. Purchasing and renovating existing buildings continues to be more affordable than building from the ground up. But other factors are also in play. Industrial outdoor storage (IOS) properties—a new subcategory of industrial real estate—had a very successful 2023. Several equipment rental, contractor, and fleet storage users paid premiums for sites in Albuquerque while several other similar users continue to search for what is proving to be a rare find: large (3 – 10 acre), fenced, industrially zoned sites with small (and in some cases no) buildings.

Opportunities with a price tag in the \$500,000 - \$999,000 range are increasingly rare (only 10 of 39 active listings) and typically sell within a few months of going to market. Most properties close within six months of going to market. Those that don't usually have a limiting condition like location (South Valley and Rio Rancho submarkets), zoning (MX-M and C-1 zoned warehouse buildings have several use limitations), or size (fewer prospects are capable of buying a 50,000+ square foot building, even in a strong market, than are capable of buying a 5,000 – 15,000 square foot space).

On the whole, however, the market remains favorable for sellers and extremely competitive for buyers. Interest rate increases hopefully will not be as much of a factor in 2024. Until sale prices of vacant/owner-user properties converge with construction costs, the market should continue in this manner.

Cash flowing industrial properties remain heavily sought after and extremely rare, so much so that there is not enough data to construe a trend. Multi-tenant small industrial buildings (2,500 – 5,000 SF units) are king in this category right now. Those fortunate enough to own one are likely being approached by off market buyers with regularity. If ever there's a year to test the market, 2024 is it.

