

INDUSTRIAL MARKET SHOWS IMPROVEMENT



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Albuquerque's industrial market has experienced modest occupancy improvements and increased sales activity over the past three years. For year-end 2016, the industrial market reported 39.6 million square feet of space and a 6.8 percent vacancy rate. This shows significant improvement from the reported 9.1 percent vacancy rate and a total of 39.1 million square feet in mid-2013. The increase in reported industrial space (+460,000 square feet) from 2013 to 2016 was primarily due to a few existing business expansions or build-to-suit developments.

Albuquerque MSA's employment has been relatively stagnant at about 900,000 jobs since 2010, which has limited demand for new industrial and office real estate occupancy. As of February 2017, the state's unemployment rate was the highest in the nation at 6.8 percent, the Albuquerque MSA rate was 6.2 percent, while the U.S. unemployment rate dropped to 4.7 percent. Employment projections from the New Mexico Workforce Solutions division for 2014 to 2024 imply a modest decrease in manufacturing jobs from about 27,982 to 27,038 by 2024. Other industry types that typically use industrial and warehouse space, such as wholesale trade and warehousing, are expected to experience modest demand increases by 2024. Construction jobs are expected to experience relatively robust growth over the next few years.

The biggest recent "win" for the Albuquerque industrial market is the new development of the state-of-the-art Facebook data center in Los Lunas, about 16 miles south of Albuquerque. Construction is expected to employ 350 construction workers over the next 12 to 18 months. Permanent employment from this first phase of the project will likely provide 50 to 70 full-time jobs.

There has been virtually no speculative industrial or office/warehouse development activity in the Albuquerque MSA over the Past three years. Most development activity has been related to expansions of existing industrial tenants within the market, such as Admiral Beverage (219,000 square feet), or the Friedman Recycling facility (87,106 square feet).

Most industrial and warehouse

sales activity over the past few years in the Albuquerque MSA has been focused on owner-user office-warehouse sales to established local companies needing to expand or add additional services. Most of these sales over the past two years have ranged from 8,000 square feet to 40,000 square feet, although SVN sold a 104,000-square-foot FedEx facility in January 2017.

Microbrewery developments and

expansions have become a bright spot in the industrial market over the past few years. Several newer breweries have successfully opened in traditionally industrial districts. This segment of the industrial market is expected to grow by nearly 16 percent by 2024.

Medical cannabis production has also been a positive growth story for smaller industrial properties within the MSA. These buildings,

typically ranging from 7,000 square feet to 16,000 square feet, are often located in lower-demand industrial districts. Buildings meeting the stringent Department of Health location requirements and possessing sufficient power for indoor growing have commanded triple-net rents at \$2 per square foot to \$3 per square foot higher than other functionally similar buildings that do not meet the legal criteria.



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