

FIGURES | ALBUQUERQUE INDUSTRIAL | Q1 2024

Supply-side imbalances contributes to slowdown in the Albuquerque industrial market

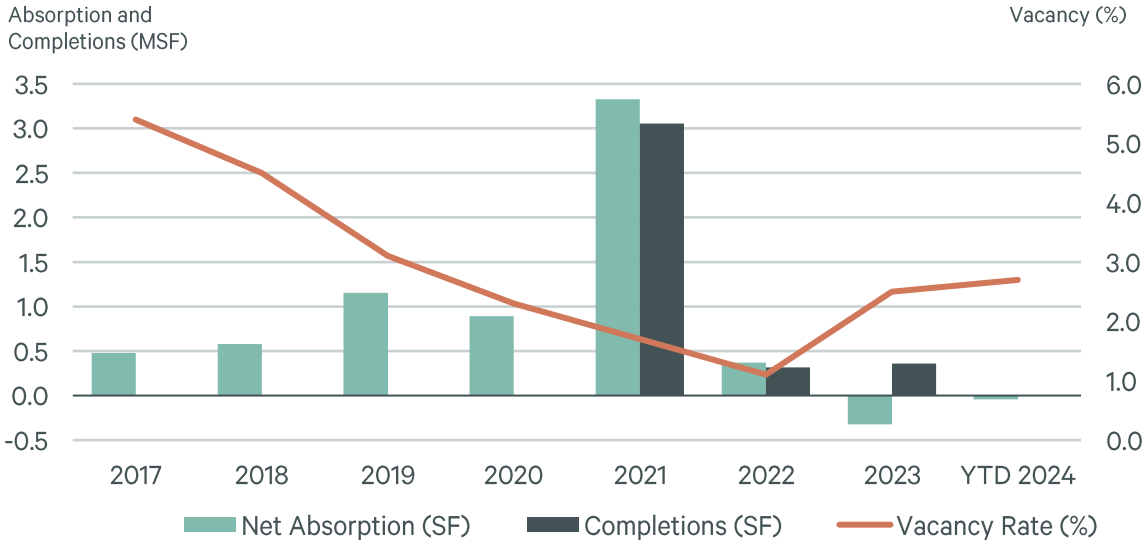


Note: Arrows indicate change from previous quarter.

HIGHLIGHTS

- Lack of new supply contributed to users facing challenges with limited options for available space. This included properties that have been on the market for extended periods of time or waiting for newly constructed spaces with delivery timelines of two years or more.
- In Q1 2024, the Albuquerque industrial market posted negative net absorption of 43,388 square feet. This decline was primarily influenced by a large vacant space in the South I-25 submarket.
- The overall vacancy rate increased by 10-basis points (bps) quarter-over-quarter to 2.7%, attributed to delayed leasing activity caused by extended decision-making timelines.
- Despite tight vacancy and tenants interested in the market, a significant number of new developments have not been seen since 2021.
- Median asking rates decreased quarter-over-quarter from \$11.80 NNN to \$11.50 NNN.

FIGURE 1: Net Absorption, Completions, and Vacancy Rate



Source: CBRE Research, Q1 2024

Market Overview

The Albuquerque industrial market was comprised just over 47 million sq. ft. at the close of Q1 2024. Negative net absorption persisted for the second consecutive quarter, totaling negative 43,888 square feet. Notably, the South I-25 submarket led in negative absorption, primarily driven by the 52,856 sq. ft. of vacant for sale or lease space at 2810 Karsten Ct SE. Additionally, smaller vacancies within buildings at 1823-1833 Commercial St NE and 8500 Los Volcanes Rd NW further contributed to the negative absorption trend. The overall vacancy rate increased slightly quarter-over-quarter from 2.6% to 2.7%. The overall availability rate also experienced a corresponding uptick from 2.9% to 3.1%. The Airport submarket recorded the highest overall availability and vacancy rates, with more than half of the available and vacant square footage in the submarket residing in a single building located at 3041 University Blvd SE.

The overall median asking rate for industrial space in Albuquerque decreased quarter-over-quarter from \$11.88 per sq. ft. per year NNN to \$11.50 NNN. On a year-over-year basis, this figure dropped by 8%. This decline is primarily attributed to the absorption of available space over time in newer class A buildings, leaving predominantly older class B and class C industrial space on the market.

FIGURE 2: Market Statistics

	Net Rentable Area (SF)	Avail. Rate (%)	Vacancy Rate (%)	YTD Net Absorption (SF)	Median Asking Rent (\$/SF/Yr NNN)	Under Const. (SF)	YTD Deliveries (SF)
Airport	1,113,418	8.3	6.8	28,500	11.38	-	-
Downtown	3,287,932	1.7	0.7	(17,252)	12.06	-	-
Mesa del Sol	693,896	5.3	5.3	-	11.00	-	-
NE Heights	482,381	0.2	0.2	-	9.00	-	-
North I-25	16,684,839	4.2	3.6	12,189	11.75	76,574	-
North Valley	2,663,822	0.7	0.4	-	11.00	-	-
Rio Rancho	6,539,789	0.1	0.1	-	19.00	-	-
SE Heights	1,511,743	2.7	2.0	(4,500)	14.00	-	-
South I-25	3,106,520	5.2	5.2	(50,809)	11.00	-	-
Valencia County	3,234,118	6.1	6.1	-	9.50	-	-
West Mesa	7,771,037	1.6	1.4	(11,516)	10.50	86,000	-
Market Total	47,089,495	3.1	2.7	(43,388)	11.50	162,574	-

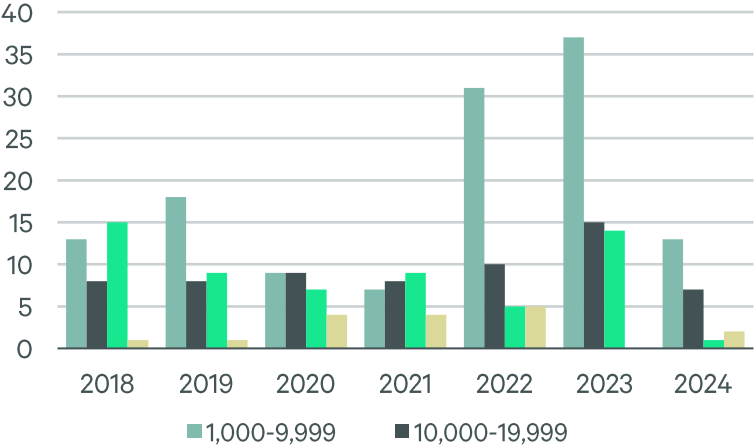
Source: CBRE Research, Q1 2024

Market Activity

Despite a softening of fundamentals in Q1 2024, leasing activity increased year-over-year by 31.6%, resulting in a total transaction volume of 311,379 sq. ft. across 23 completed deals. The demand for space within the 1,000-9,999 sq. ft. size range continued to be the preferred choice for completed leases since 2022.

Tenants’ interest in the Albuquerque industrial market remained, with activity observed in logistics/distribution and special purpose property types. Notable deals within the property types included Circet USA, securing 28,500 sq. ft. at 2601 Baylor Dr SE, and Statewide Home Remodeling, leasing 13,393 sq. ft. at 7421 Snaproll NE. Additionally, the minimum average tenant requirement for Q1 2024 stood at 125,000 sq. ft., underscoring continued demand despite market conditions.

FIGURE 3: Historical Lease Count (#) by Deal Size Range



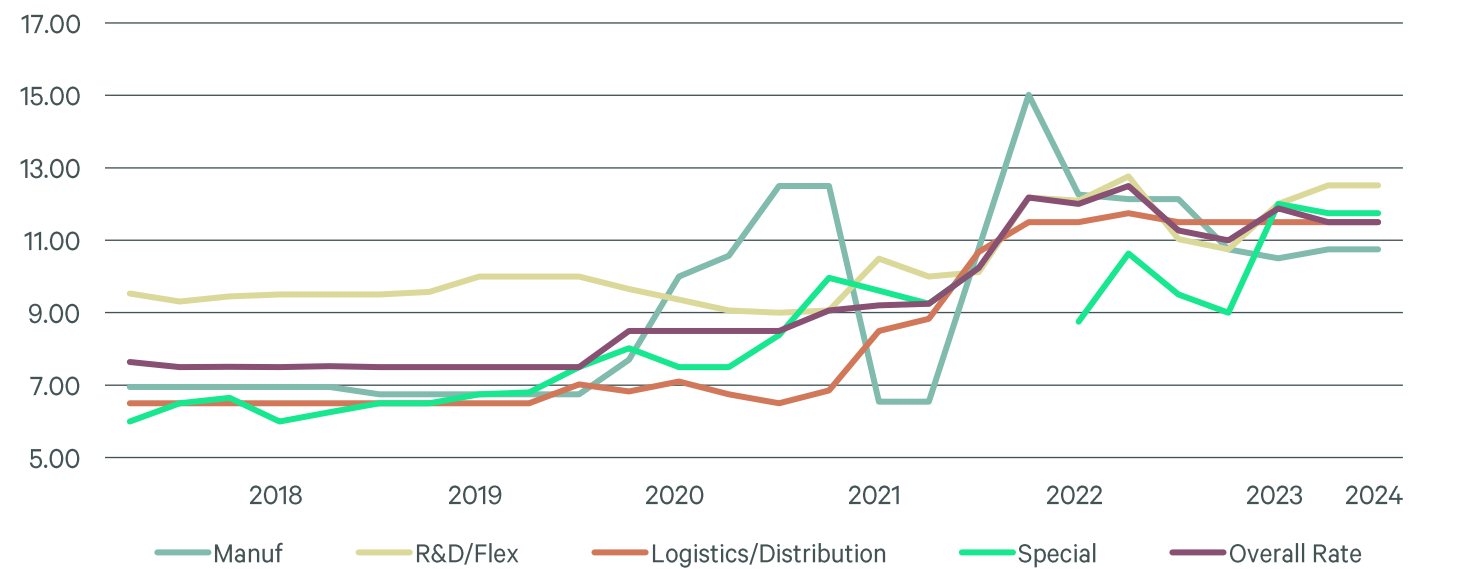
Source: CBRE Research, Q1 2024

FIGURE 4: Market Statistics by Property Type

Property Type	Net Rentable Area (SF)	Vacancy Rate (%)	YTD Deliveries (SF)	Under Const. (SF)	YTD Net Absorption (SF)	Median Asking Lease Rate (\$/SF/YR NNN)
Logistics/Dist.	18,032,930	1.6	-	162,574	6,940	11.50
Manufacturing	13,794,348	6.1	-	-	(52,856)	10.75
Special Purpose	10,176,043	0.5	-	-	9,732	11.75
R&D/Flex	5,086,174	1.4	-	-	(7,204)	12.52
Metro Total	47,089,495	2.7	-	162,574	(43,388)	\$11.50

Source: CBRE Research, Q1 2024

FIGURE 5: Median Asking Lease Rate (\$/SF/YR NNN)



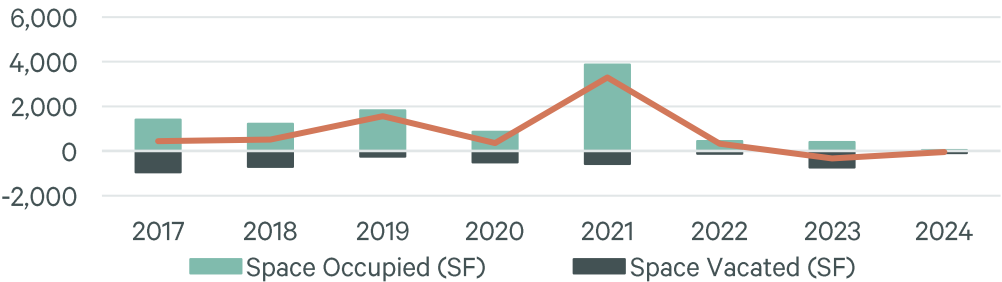
Source: CBRE Research, Q1 2024

Development Activity

The Albuquerque industrial market grappled with trends that shaped the landscape for both landlords and tenants alike. Rising prices for new developments, coupled with a scarcity of new construction projects, have been prominent features of the market since 2021. In Q1 2024, the development pipeline saw limited expansion with just one construction project added. Active construction projects included two build-to-suit properties: 4000 Ellison St NE and 541 Airport Dr NW. These totaled to 162,574 sq. ft., which falls short of the demands of most active tenants looking into the market. With anticipated delivery dates for both projects set in Q2 2024 and Q2 2025, respectively, the much-needed supply relief for Albuquerque will face delays.

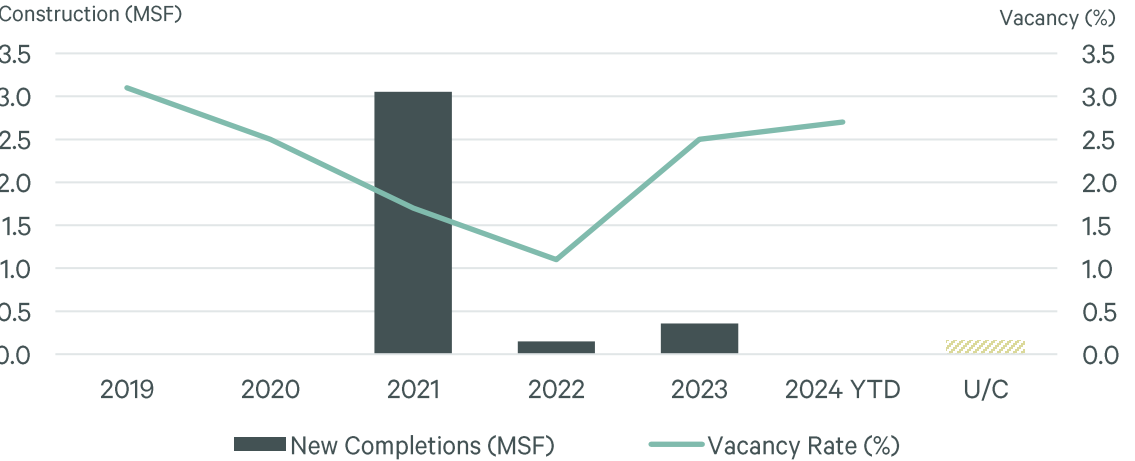
As a result, vacancy rates have increased with the lack of large, high-quality spaces that tenants seek, leaving tenants uncertain about their next steps as their lease terms end. The scarcity of new construction has prompted increased rates within existing buildings on the market, particularly in manufacturing buildings, where asking rates climbed 4.3% quarter-over-quarter to \$12.52 NNN, and in R&D/Flex buildings, where asking rates increased by 2.4% to \$10.75 NNN. This limited availability has influenced tenant sentiment, fostering a feeling of constraint as they try to navigate a market with restricted options for expansion or relocation.

FIGURE 6: Gross Activity and Net Absorption (SF, 000s)



Source: CBRE Research, Q1 2024

FIGURE 7: Historical Construction Completions (MSF) and Vacancy Rate (%)



Source: CBRE Research, Q1 2024

FIGURE 8: Q1 2024 Under Construction Projects

	YTD Deliveries (SF)	Submarket	Spec/BTS
PROPERTY NAME			
4000 Ellison St NE	76,574	North I-25	BTS
541 Airport Dr NW	86,000	West Mesa	BTS

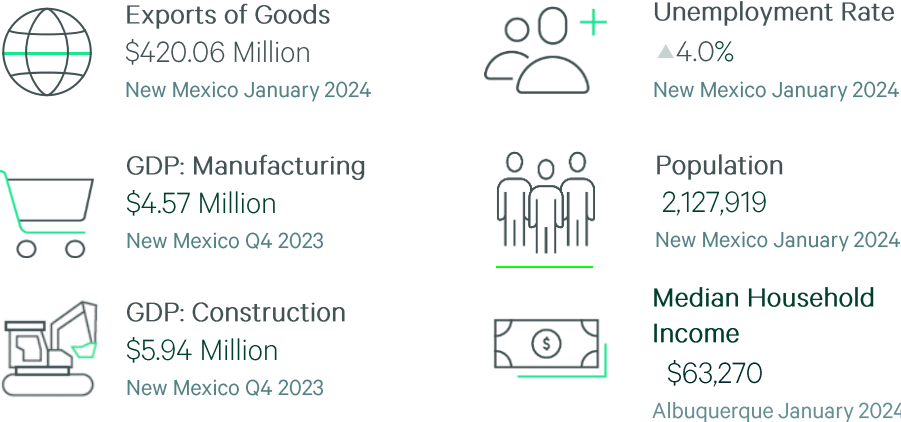
Source: CBRE Research, Q1 2024

National Economic Overview

Continued economic growth and signals of more accommodative policy from the Fed suggest a soft landing for the U.S. economy. GDP growth is expected to be less than half of 2023's pace, with slower hiring and a more cautious consumer being the main factors. Interest rate sensitive sectors, like tech start-ups and goods manufacturing, have been most affected. However, investment in EV and microchip production capacity has been an exception.

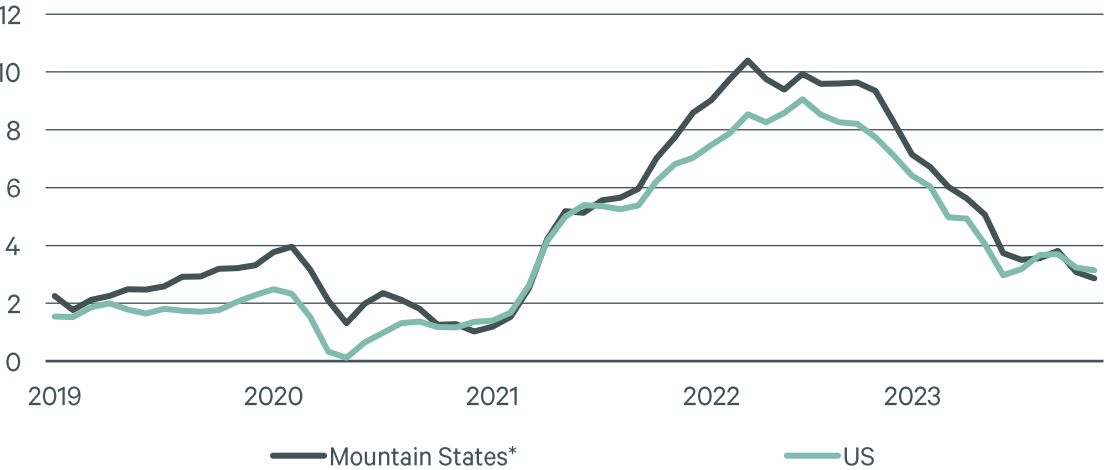
Recent hiring has largely come from publicly funded sectors, with leisure and hospitality being driven by demand for discretionary services. Private firms have been more cautious, leading to a decline in job openings and a cooling of wage growth. Unemployment remains below 4% and high-capacity utilization, so CPI is unlikely to return to target until 2025. The Fed is expected to make three, 25 basis point cuts this year, which is putting downward pressure on longer-term rate expectations. This provides some optimism for real estate capital markets, but the recovery will only begin after the first cut is delivered. Better than expected growth has helped keep real estate vacancy rates low, especially in the industrial, retail, and multifamily sectors.

FIGURE 9: Industrial Market Indicators



Sources: FRED Econ. Data, March 2024; Bureau of Labor Statistics, March 2024; FRED Econ. Data, March 2024; ESRI, March 2024; FRED Econ. Data, March 2024; ESRI, March 2024; CBRE Research, Q1 2024

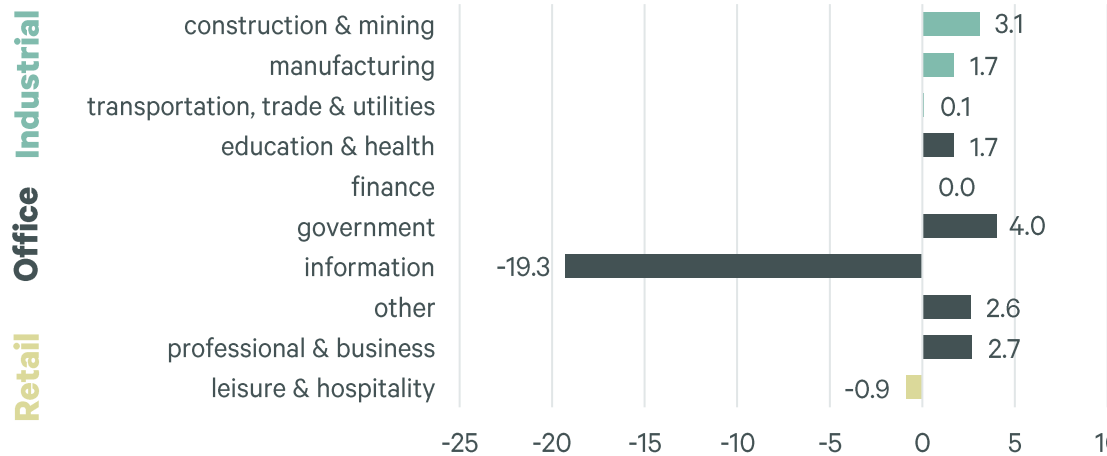
PENDING FIGURE 10: 12-month Change in Consumer Price Index for Mountain States and U.S. (%)



Source: Bureau of Labor Statistics, December 2023

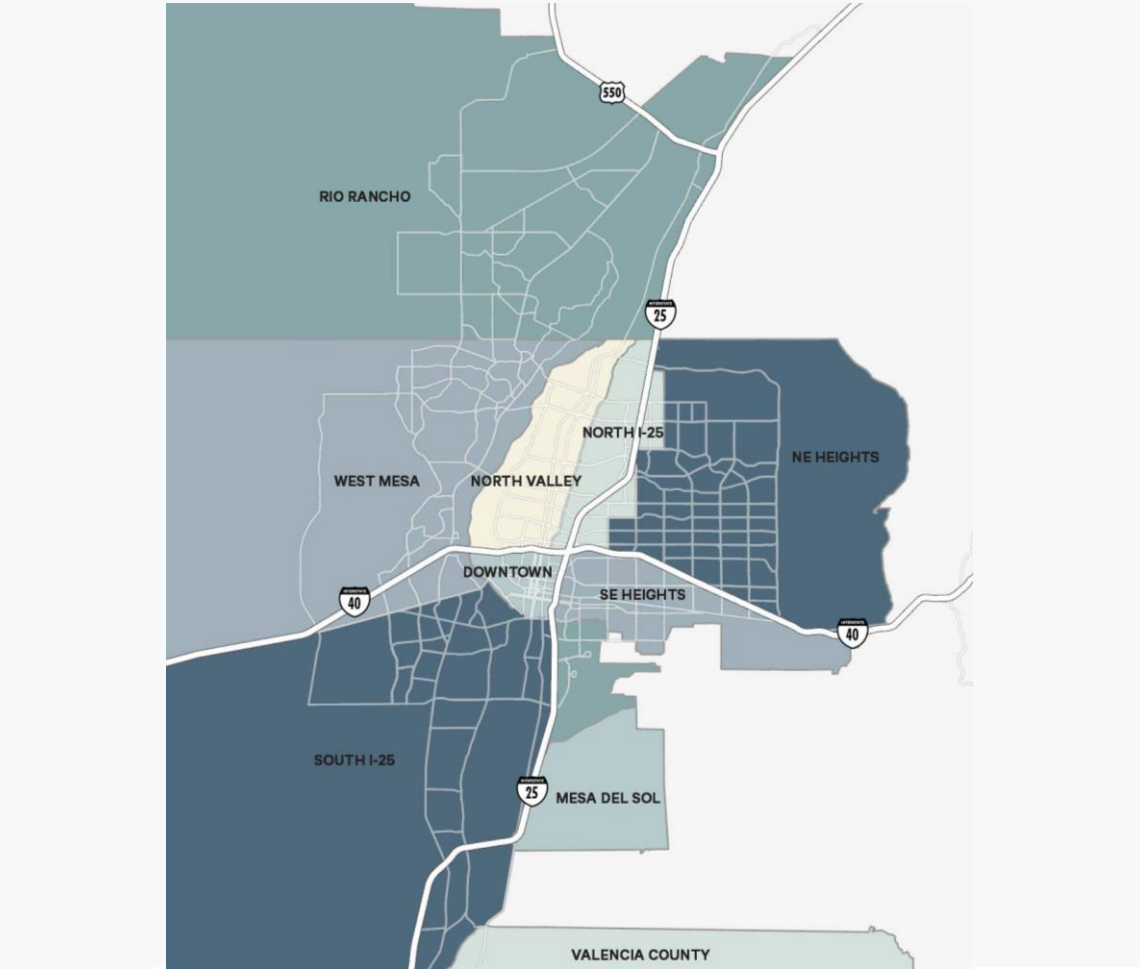
*Mountain States includes AZ, CO, ID, NV, NM, UT, WY

Figure 11: New Mexico Non-Farm Job Growth YOY by Industry (%)



Source: New Mexico Department of Workforce Solutions, February 2024; CBRE Research, Q1 2024

Market Area Overview



UPTOWN ALBUQUERQUE

6100 Uptown Blvd NE, Suite 300
Albuquerque, NM 87110

Survey Criteria

Includes all existing industrial buildings 10,000 sq. ft. and greater in size, in the Albuquerque metro market. Buildings which have begun construction are evidenced by site excavation or foundation work.

Methodology

Position absorption is calculated at time of occupancy, which allows for product to be vacant but no longer available. Lease rates are calculated using weighted average of asking lease rates for existing product with availability. Sublease space can be vacant or occupied. Total Vacancy includes both direct and sublease. Lease activity is the sum of the square footage of leases signed during a designated time period. Data published in previous reports is subject to change.

Contacts

Jim Smith

First Vice President
+1 505 837 4923
jim.smith@cbre.com

Brecken Mallette

Senior Associate
+1 505 837 4914
brecken.mallette@cbre.com

Cindy Campos

Associate
+1 505 270 4168
cindy.campos@cbre.com

Jim Chynoweth

Managing Director
+1 505 837 4943
jim.chynoweth@cbre.com

Isabella Grassi

Research Analyst
+1 505 837 4945
Isabella.grassi@cbre.com

Sierra Hoffer

Field Research Manager
+1 801 869 8022
sierra.hoffer@cbre.com

© Copyright 2024 All rights reserved. Information contained herein, including projections, has been obtained from sources believed to be reliable, but has not been verified for accuracy or completeness. CBRE, Inc. makes no guarantee, warranty or representation about it. Any reliance on such information is solely at your own risk. This information is exclusively for use by CBRE clients and professionals and may not be reproduced without the prior written permission of CBRE’s Global Chief Economist.