Cantera Consultants & Advisors Inc. Commercial Real Estate Market Survey - Albuquerque, Las Cruces, Rio Rancho, Santa Fe and New Mexico

Survey compiled by Todd Clarke CCIM - respondents were surveyed June/July 2010 - 79 responses from NM’s leading brokers, owners, investors and appraisers

Survey Respondents
- Broker: 41
- Owner: 25
- Investor: 4
- Manager: 4
- Appraiser: 2
- Other: 1

Differences in CAP Rate by Market
(compared to ABQ CAP Rate)
- 2010 CAP
  - Santa Fe: 7.40% lower 9.08%
  - Rio Rancho: 0.43% lower 9.08%
  - Las Cruces: 1.55% higher 11.07%
  - Rural NM: 2.61% higher 12.12%

What do you believe buyers are looking for in CAP rates for 2010?
- Low= 8.9%
- High= 10.1%
- Avg= 9.5%

What do you believe CAP rates were for deals closed in 2008?
- Low= 7.40%
- High= 8.5%
- Avg= 8.0%

What do you believe CAP rates were for deals closed in 2007?
- Low= 6.88%
- High= 7.36%
- Avg= 7.15%

What do you believe CAP rates were for deals closed in 2006?
- Low= 6.50%
- High= 7.36%
- Avg= 7.00%

What do you believe CAP rates were for deals closed in 2005?
- Low= 6.00%
- High= 7.67%
- Avg= 6.88%

Vacancy Rates 2005-2010
- Increased: 65
- Decreased: 11
- Remained the same: 81

Rental Rates 2005-2010
- Increased: 9
- Decreased: 56
- Remained the same: 81

Property Values 2005-2010
- Increased: 10
- Decreased: 59
- Remained the same: 80

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Commercial real estate values dip 20%

Commercial real estate values have dropped by an average of just more than 20 percent in New Mexico since the deal-crazy days of just three to four years ago, according to a recent survey of brokers, owners, investors and appraisers by Albuquerque-based Cantera Consultants & Advisors Inc.

Almost three-quarters of those surveyed – 59 out of 80 respondents – said they’ve seen a decrease in the value of their properties from 2005 to 2010. The survey turned up similar results regarding decreases in both rental and occupancy rates at their properties.

“All in all, while this matches an overall downward trend in pricing that the rest of the nation has seen ... it is better than the national averages,” said Todd Clarke, CEO of both Cantera Consultants and its sister brokerage company N.M. Apartment Advisors Inc.

Nationwide as of July, commercial real estate prices were 38.9 percent below the peak recorded in October 2007, according to the Moody’s/REAL All Property Type Aggregate Index.

The drop in commercial real estate values is a function of an increase in cap rate, short for capitalization rate, which is based on a formula and commonly used to evaluate the risk and rewards of buying a property. Cap rates are influenced by broad market forces, including supply and demand, and tend to go up when buying commercial real estate is seen as a riskier investment.

Now is such a time. The average cap rate in New Mexico, blended across all property types, was 7.7 percent in 2005. The rate dropped to 7.4 percent in 2006-07, which were the height of the let’s-make-a-deal years in commercial real estate.

The average, blended cap rate increased to 8 percent in 2008 as the economic recession spread from residential real estate to the commercial side. The rate jumped to 8.9 percent in 2009 and is currently at around 9.5 percent, according to the Cantera survey.

Although he has kept track of cap rates in the apartment market for years, Clarke only saw the need recently for a broader survey of cap rates across the major commercial property types.

“When we started doing property tax protests, we thought we needed something like this to quantify values,” he said.

Each percentage point increase in cap rate translates to a roughly 10 percent drop in a property’s value. As an example, Clarke cited a case scenario of a mini-storage property that has a consistent net operating income of $100,000, which is the rental income minus expenses and lost income from vacancies.

“In 2005, a 7.5 percent cap rate would indicate a value of $1,333,333,” he said. “By 2010, investors were looking for a 9.5 percent cap rate – (as a result) the value had decreased to $1,052,632 for an effective decrease in value of $280,701 or 21 percent.”

Cap rates vary from one property type to another, although all are headed in the same upward direction. Here’s how average cap rates have moved by property type over the past five years:

- **Office**: Dropped from 7.8 percent in 2005 to a low of 7.5 percent in 2006, then rose steadily to 9.6 percent in 2010.
- **Retail**: Dropped from 7.4 percent to a low of 7.1 percent in 2007, then rose steadily to 9.8 percent in 2010.
- **Warehouse**: Dropped from 8.7 percent in 2005 to 7.9 percent in 2006-07, then rose steadily to 8.7 percent in 2010.
- **Industrial**: Dropped from 8.5 percent in 2005 to 7.8 percent in 2006, then rose steadily to 9.9 percent in 2010.

The local apartment market deserves special mention because, as an investment, it has done well in terms of increasing rents and occupancy. Nevertheless, after the average cap rate dropped from 6.9 percent in 2005 to a low of 6.4 percent in 2007, it rose steadily to 8 percent in 2010.

The increase in cap rate has less to do with performance of apartment properties as an investment, than it has with “some uncertainty about property values since so few deals have traded in the last 20 months,” Clarke said.

Cantera’s survey, conducted in June and July, had a comparatively strong 11 percent response from the 700 commercial real estate professionals who got it.

**New CNM building opens**

The 106,500-square-foot, two-story Student Resource Center, the first new instructional building built on the Central New Mexico Community College main campus since 1991, is open for the fall term.

The $32 million project provided more than 200 construction jobs from groundbreaking in early 2009 to completion in August.