

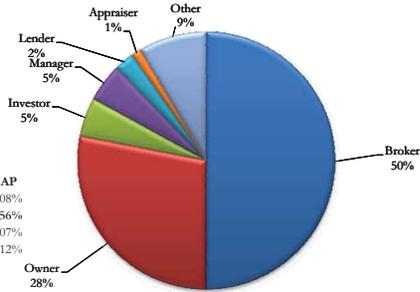
Cantera Consultants & Advisors Inc. Commercial Real Estate Market Survey - Albuquerque, Las Cruces, Rio Rancho, Santa Fe and New Mexico

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	23
Investor	4
Manager	4
Lender	2
Appraiser	1
Other	7
Total	82

Survey Respondents



Differences in CAP Rate by Market

Market	2010 CAP
Santa Fe	0.43% lower 9.08%
Rio Rancho	1.05% higher 10.56%
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 2009?

Low=	8.4%
High=	9.4%
Avg=	8.9%

What do you believe CAP rates were for deals closed in 2008?

Low=	7.6%
High=	8.5%
Avg=	8.0%

What do you believe CAP rates were for deals closed in 2007?

Low=	6.8%
High=	7.9%
Avg=	7.4%

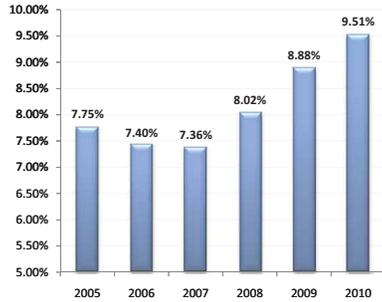
What do you believe CAP rates were for deals closed in 2006?

Low=	6.9%
High=	7.9%
Avg=	7.4%

What do you believe CAP rates were for deals closed in 2005?

Low=	7.2%
High=	8.3%
Avg=	7.8%

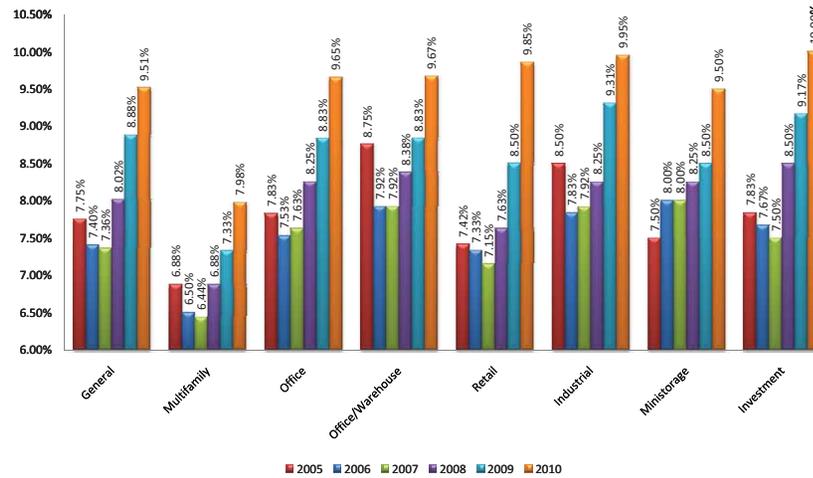
Cap Rates in general for ABQ



Cap Rates by product Type

	General Multifamily	Office	Office/Warehouse	Retail	Industrial	Ministorage	Investment	
2005	7.75%	6.88%	7.83%	8.75%	7.42%	8.50%	7.50%	7.83%
2006	7.40%	6.50%	7.53%	7.92%	7.33%	7.83%	8.00%	7.67%
2007	7.36%	6.44%	7.63%	7.92%	7.15%	7.92%	8.00%	7.50%
2008	8.02%	6.88%	8.25%	8.38%	7.63%	8.25%	8.25%	8.50%
2009	8.88%	7.33%	8.83%	8.83%	8.50%	9.31%	8.50%	9.17%
2010	9.51%	7.98%	9.65%	9.67%	9.85%	9.95%	9.50%	10.00%

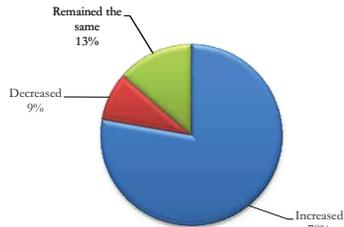
Albuquerque Commercial Real Estate CAP rates 2005-2010 by product type



Vacancy Rates 2005-2010

Increased	63
Decreased	7
Remained the same	11
Total	81

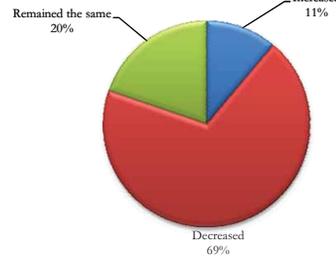
Vacancy Rates



Rental Rates 2005-2010

Increased	9
Decreased	56
Remained the same	16
Total	81

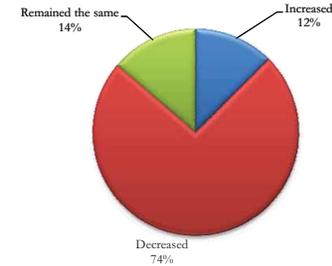
Rental Rates



Property Values 2005-2010

Increased	10
Decrease	59
Remaine	11
Total	80

Property Values



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



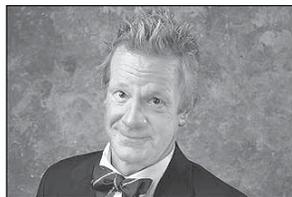
PHOTO COURTESY OF CNM

The new 106,500-square-foot Student Resource Center is open for the fall term at Central New Mexico Community College.



CLARKE: Keeping track of cap rates

Commercial Real Estate



RICHARD METCALF
Of the Journal

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

CAP RATES INCREASING IN N.M.

A sign of the times in commercial real estate, rising cap rates mean falling values. As a general rule of thumb, each percentage point increase in cap rates translates into about a 10 percent decrease in real estate value.

Here are the changes over the past five years by property type:

Property Type	2005	2010
Apartments	6.9%	8%
Office	7.8%	9.6%
Warehouse	8.7%	9.7%
Retail	7.4%	9.8%
Industrial	8.5%	9.9%
Ministorage	7.5%	9.5%

SOURCE: Todd Clarke of Cantera Consultants & Advisors Inc.

JOURNAL

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 9.7 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,