



Market Analysis of Development Opportunities Albuquerque East Gateway Sector Plan Executive Summary

CITY OF ALBUQUERQUE | AUGUST 26, 2008

RCLCO ENGAGEMENT OBJECTIVES

- ▶ Understand key trends influencing future development in East Gateway
 - Economic
 - Demographic
 - Real estate market
- ▶ Evaluate supply and demand conditions
- ▶ Identify opportunities for development
 - Near-term and long-term opportunities
 - Types and quantity of supported development

CANDIDATE LAND USES

- ▶ Office
- ▶ Retail
- ▶ Light Industrial
- ▶ Residential



METHODOLOGY

STUDY AREA ANALYSIS

Identify area strengths and weaknesses for future development

- Study area visit/analysis
- Metro growth patterns
- Socioeconomic analysis

SUPPLY CONDITIONS

Evaluate quantity and quality of existing development

- Market supply trends
- Market performance
- Representative projects

DEMAND CONDITIONS

Project current unmet demand and future expected demand

- Qualitative interviews
- Regional demand
- Study area capture

MARKET OPPORTUNITIES

- Summarize overall market conditions
- Determine level of opportunity
- Define character of supported development

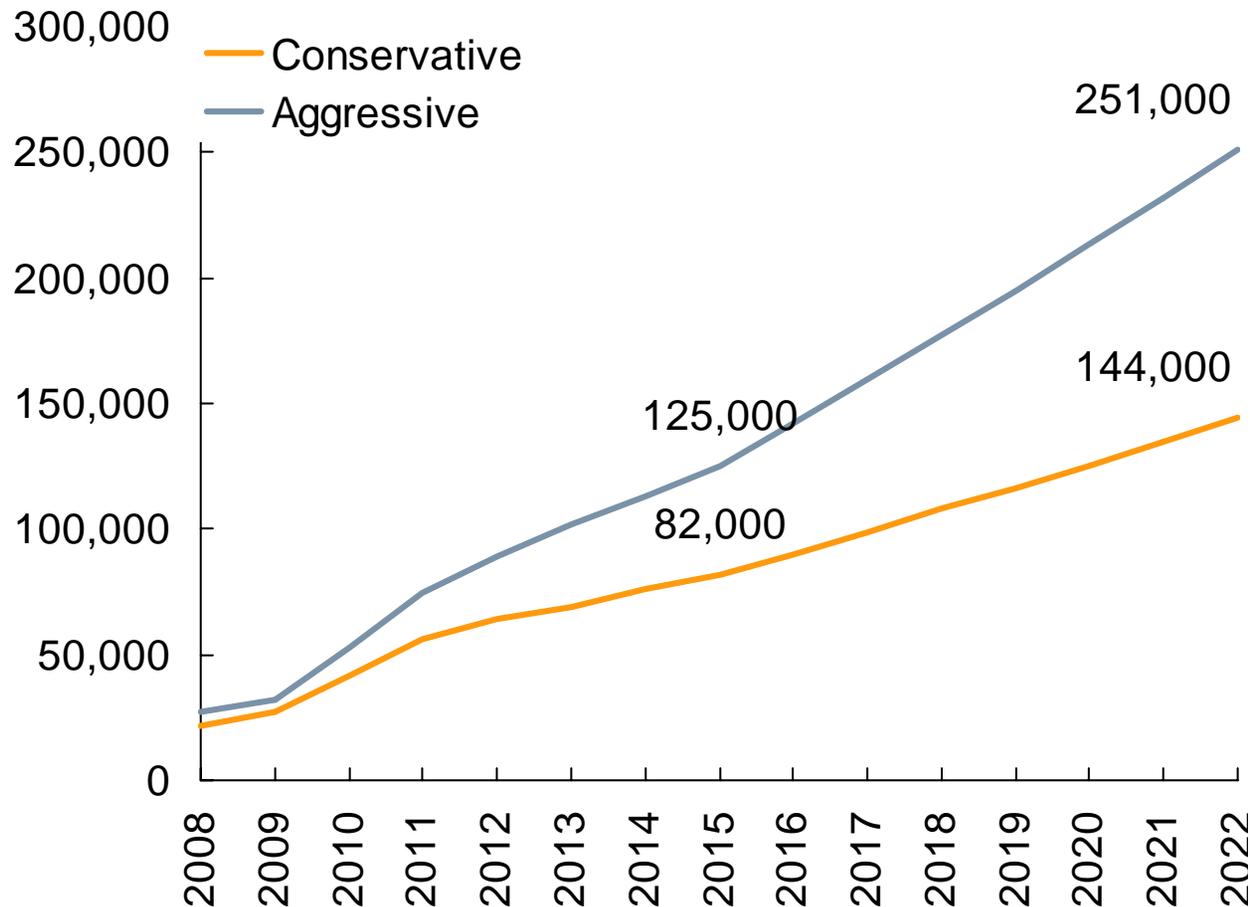
SUMMARY OF MARKET OPPORTUNITIES

	Near-Term Opportunity (2009-2015)	Long-Term Opportunity (2016-2022)
<i>Office</i>	Limited	Moderate
<i>Retail</i>	Strong	Strong
<i>Light Industrial</i>	Strong	Moderate
<i>Residential</i>	Very Limited	Limited

MARKET OPPORTUNITIES

OFFICE

Cumulative Office Space Demand (Square Feet)
East Gateway Sector Development Plan Area



Opportunities

- ▶ Most office demand will likely come from businesses related to Sandia or Kirtland for the foreseeable future
- ▶ Long-term demand could come from small local-serving and professional service businesses
- ▶ Flexible office space serving the needs of individuals unable to enter Kirtland (such as foreign nationals) could represent a strong immediate opportunity

SOURCE: RCLCO

ADDITIONAL CONSIDERATIONS

OFFICE

Critical Success Factors

- ▶ Concentrate office space in nodes close to existing employment or retail clusters
 - Initially, this will likely be near the intersection of Central and Eubank or near (or in) the Sandia Tech Park
- ▶ To draw additional businesses to the study area, surrounding land uses will likely need supporting amenities (restaurants, shopping, services, etc.)

Limiting Factors

- ▶ The study area's relatively negative perception is a deterrent to new residents, and thus new employers, and vice versa
- ▶ Lack of enough supporting uses makes the study area less competitive with more established submarkets within Albuquerque

SUMMARY OF MARKET OPPORTUNITIES

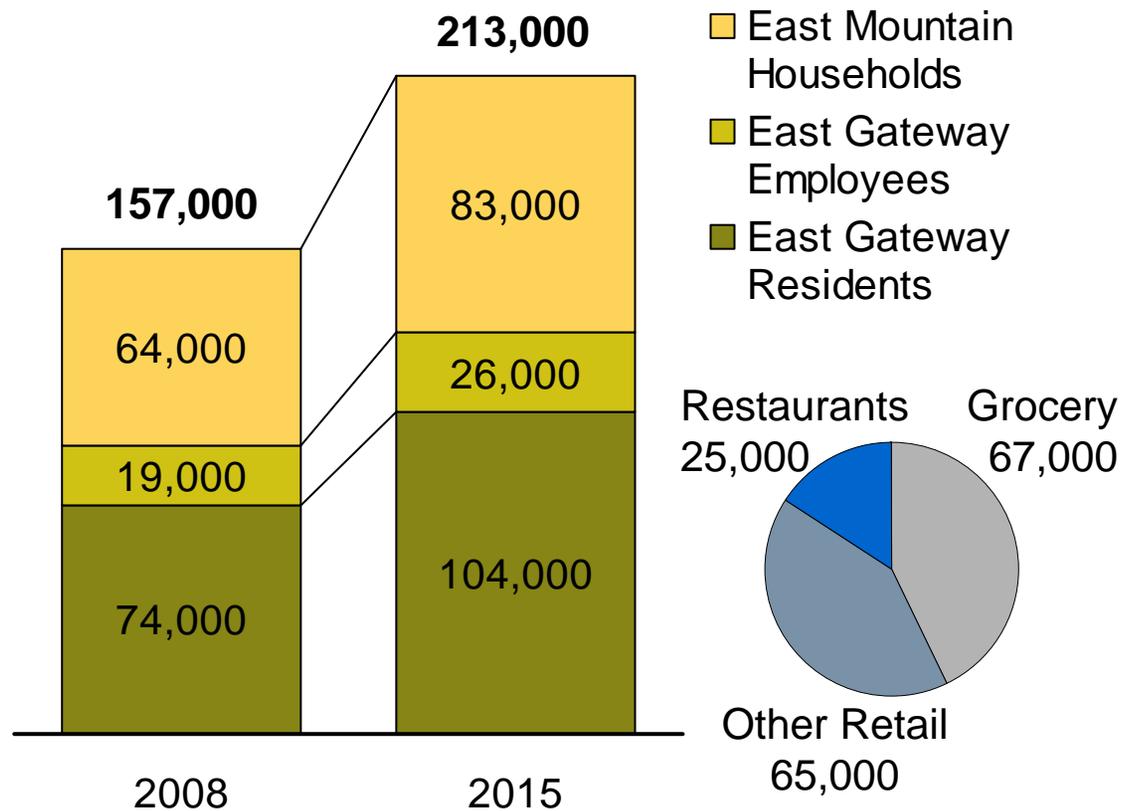
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MARKET OPPORTUNITIES

RETAIL

Unmet Neighborhood/Freestanding Retail Demand by Source (Square Feet)

East Gateway Sector Development Plan Area



Opportunities

- ▶ Local residents are currently underserved by area restaurants and grocery stores
- ▶ Study area employees (incl. Sandia, Kirtland, etc.) are a large restaurant customer base that must currently venture outside the area
- ▶ Opportunity to establish a retail node near Central and Eubank, as well as a local retail node at Central and Juan Tabo

SOURCE: RCLCO

ADDITIONAL CONSIDERATIONS

RETAIL

Critical Success Factors

- ▶ Concentrate retail space in nodes, rather than in strip centers or along Central
- ▶ Retailers targeting local employees could orient themselves along Eubank to capture Sandia and Kirtland personnel exiting the Eubank gate at lunch time or after hours
- ▶ Retail space closer to I-40 would be better positioned to capture East Mountain household spending, a critical demand source
- ▶ Market preference for local-based retailers, especially restaurants

Limiting Factors

- ▶ The study area's relatively negative perception may limit evening or nighttime retail activity
- ▶ East Mountain residents may not find it very onerous to drive past the study area, given easy I-40 access
- ▶ The wide range of household incomes in the study area may make it difficult to find market support for any given class of retailer

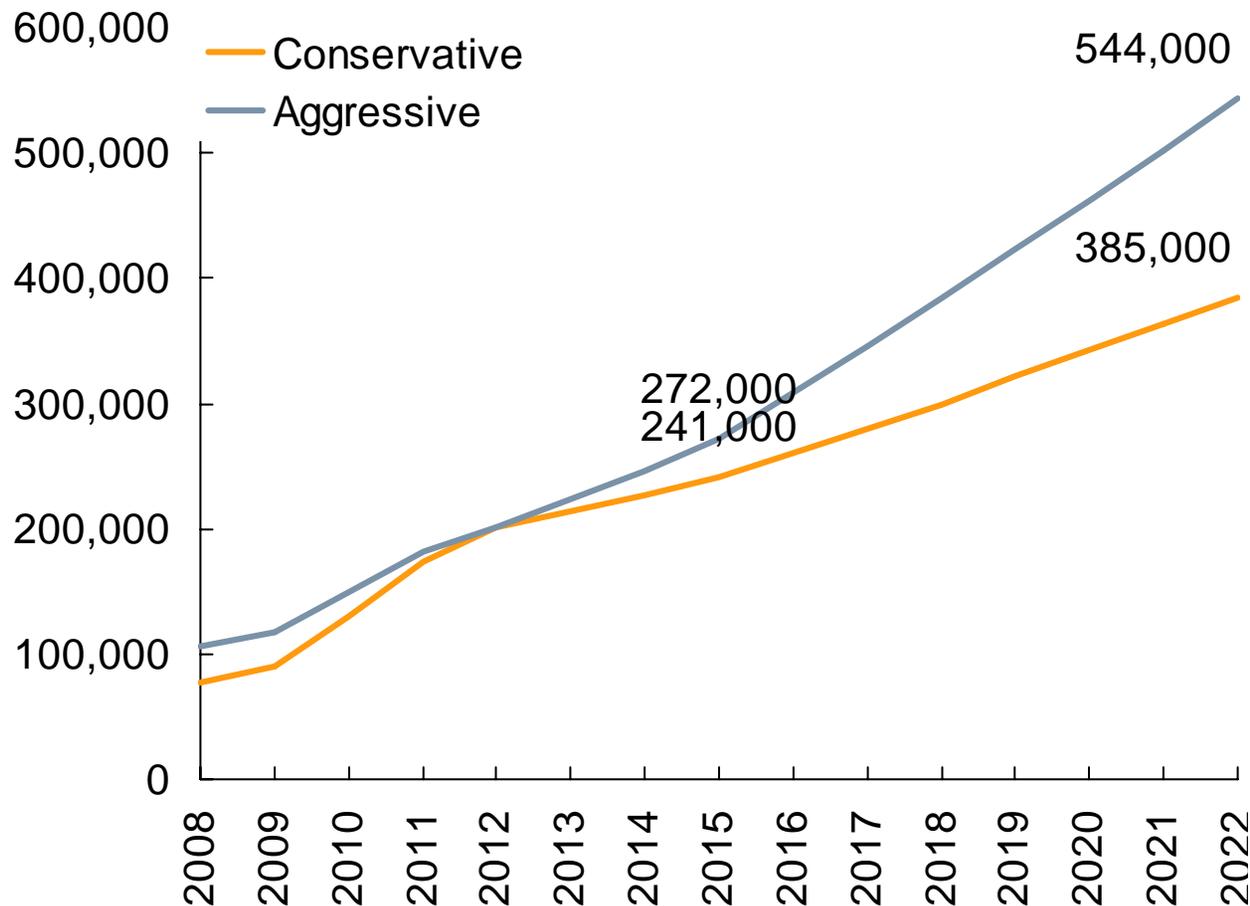
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MARKET OPPORTUNITIES

INDUSTRIAL

Cumulative Industrial Space Demand (Square Feet)
East Gateway Sector Development Plan Area



Opportunities

- ▶ Study area is already an established location for high-tech industrial uses
- ▶ Most industrial demand will likely come from businesses related to either Sandia Labs/Tech Park or Kirtland AFB for the foreseeable future
- ▶ Study area is unlikely to attract heavy manufacturing or industrial requiring truck access, which are not a good fit anyway

SOURCE: RCLCO

ADDITIONAL CONSIDERATIONS

INDUSTRIAL

Critical Success Factors

- ▶ Continue to support industrial tenants, particularly high-tech ones that bring with them high-paying jobs and improve the area's overall perception
- ▶ Any design requirements imposed by the City must carefully balance the desire for improved aesthetics with the realities of industrial development

Limiting Factors

- ▶ Full potential may not be realized due to limited availability of for-sale land in the Sandia Technology Park
 - Developers indicate that building on leased land is significantly less economically feasible than doing so on for-sale land

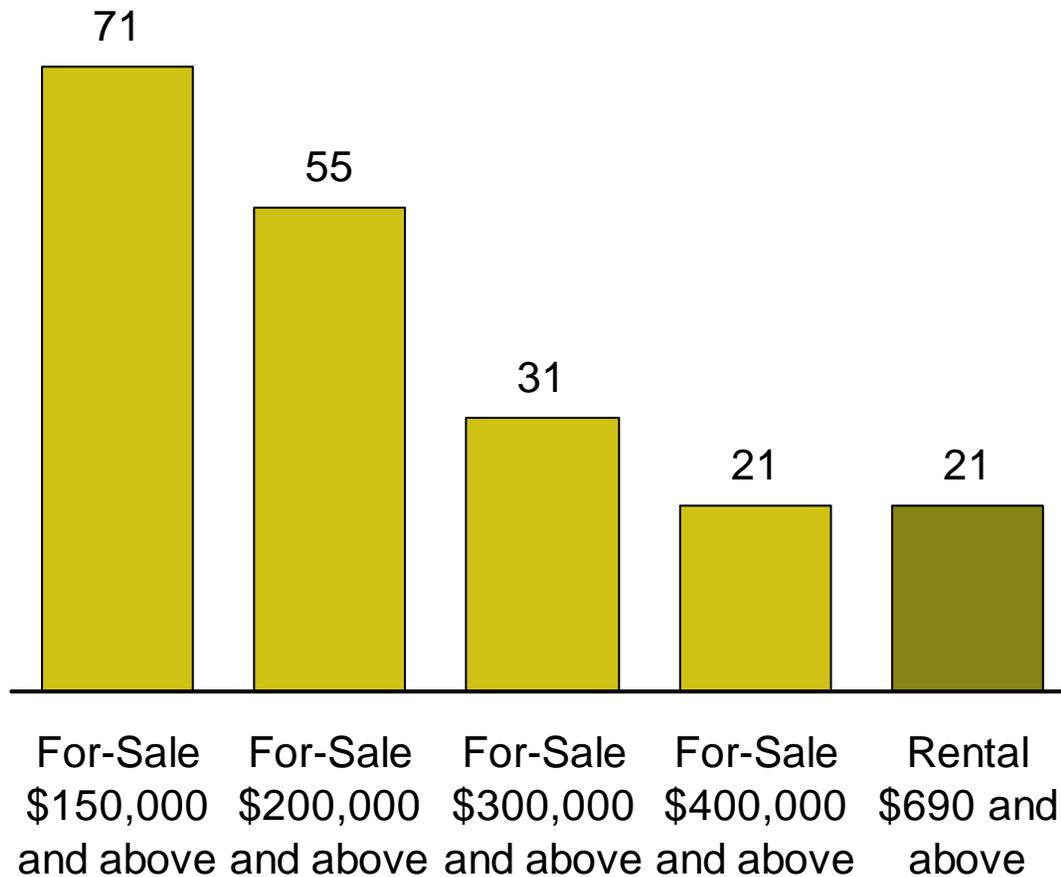
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MARKET OPPORTUNITIES

RESIDENTIAL

Annual Net New Residential Demand East Gateway Sector Development Plan Area



SOURCE: RCLCO

Opportunities

- ▶ Small-lot detached homes adjacent to walkable retail may present the strongest ownership opportunity
- ▶ Some opportunity exists for rental apartments near major employment nodes or walkable retail
- ▶ Residential projects fronting Central are unlikely to make sense near-term
- ▶ An opportunity exists to attract younger households from outside ABQ who work in the area, desire walkable environments, and lack negative preconceptions of the area
- ▶ Military retirees are also a potential target market for apartments and single-level homes

ADDITIONAL CONSIDERATIONS

RESIDENTIAL

Critical Success Factors

- ▶ Albuquerque in general, and the study area in particular, is unlikely to support overly high-density products in the near term
- ▶ Improved streetscaping and safety is needed
- ▶ Additional and better surrounding land uses (retail and services) will likely need to be in place before residential becomes a viable option for employees of Sandia Labs and Tech Park

Limiting Factors

- ▶ Negative perception of the study area limits residential viability more than any other potential land use

OVERALL CRITICAL SUCCESS FACTORS

EAST GATEWAY SECTOR DEVELOPMENT PLAN AREA

- ▶ The City needs to show commitment to the area by initiating and facilitating redevelopment
- ▶ Consider development incentives such as reduced impact fees to jump start development
- ▶ Streetscaping and design requirements need to be reasonable to attract developers
- ▶ Easing or expediting the development process may help boost interest in the study area
- ▶ Redevelopment efforts should be concentrated in specific nodes rather than spread out
- ▶ The need to create larger parcels through assemblage may be a deterrent to new development
- ▶ While not within the scope of this market study, hospitality/lodging and meeting/conference space were identified as additional land uses that should be considered

EAST GATEWAY APPENDICES

Appendix 1

MARKET OPPORTUNITY MATRIX EAST GATEWAY SECTOR DEVELOPMENT PLAN AREA ALBUQUERQUE, NM

OVERALL RETAIL: While current neighborhood centers and big boxes meet much of the retail needs of study area residents, local employees and East Mountain households are overlooked sources of retail expenditures that could supply demand for the equivalent of at least one additional neighborhood/community center.

OFFICE: Low vacancies support new construction for local-serving office, while higher regional vacancies may inhibit capture of regional office in the near-term; however, long-term prospects are also positive as more desirable office submarkets get built out and supportive land uses get built in the study area.

INDUSTRIAL: Proximity to Sandia is highly desirable, as evidenced by premium industrial lease rates in the area; to a large extent, most companies that need to be near the labs have already located near the labs over the past 10 years, which may translate into moderating industrial growth moving forward.

RESIDENTIAL: While perceptions of the area may inhibit Central Avenue's ability to capture residential uses, rental apartments near the study area's major employers and small lot detached homes within walking distance of retail and services represent development opportunities for the area.

ADDITIONAL CONSIDERATIONS: While not within the scope of this market study, hospitality/lodging serving business visitors to Sandia National Labs and Kirtland AFB, as well as off-base meeting and conference space, were identified as land uses that should be considered as potential development opportunities.

LAND USE	SUPPLY CONDITIONS	DEMAND CONDITIONS	NEAR-TERM OPPORTUNITY	LONG-TERM OPPORTUNITY
OFFICE	<ul style="list-style-type: none"> Albuquerque is a 12.5 million square foot office market, with the largest concentrations found in the North I-25, Downtown, and Uptown submarkets. Only approximately 10% of office space market-wide is Class A¹. Over half of available office space is Class B¹. The Southeast Heights submarket, of which the study area is a subset, represents just under 5% of the total metro-area supply of office space. No true office nodes exist within the study area, other than buildings within Sandia Tech Park. Local-serving office buildings are typically older, with little curb appeal. 	<ul style="list-style-type: none"> Vacancies in the Southeast Heights submarket are approximately 5%, which is the lowest of Albuquerque's submarkets and would normally justify new construction. Submarkets to the north (Rio Rancho, North I-25, Northeast Heights), however, have vacancies of around 13%, and new demand may fill vacant office space in these more desirable locations before looking to the Southeast Heights submarket. Office rents in the Southeast Heights submarket are comparable to most other submarkets in Albuquerque. 	<p>★★ Limited</p> <ul style="list-style-type: none"> We estimate that cumulative demand for office space in the study area could range from 80,000 to 125,000 square feet by 2015, assuming a target vacancy rate of 10%. Businesses associated with Sandia Labs or Kirtland AFB will likely continue to drive office demand in the study area. Metro-wide office demand will likely look for availability in other submarkets first. 	<p>★★★ Moderate</p> <ul style="list-style-type: none"> Longer term, we anticipate that the study area's appeal could increase, affording it a greater capture of metro-wide office demand. By 2022, we estimate an additional 60,000 to 125,000 square feet of demand potential for new office space in the study area. Although Sandia Labs and Kirtland AFB will undoubtedly continue to be key drivers of office space demand, we expect that local-serving office uses could represent a growing proportion of occupied space. In addition, as Albuquerque's more desirable office submarkets get built out, we anticipate that Southeast Heights and the study area in particular could gain additional office users.

Appendix 1

**MARKET OPPORTUNITY MATRIX
EAST GATEWAY SECTOR DEVELOPMENT PLAN AREA
ALBUQUERQUE, NM**

LAND USE	SUPPLY CONDITIONS	DEMAND CONDITIONS	NEAR-TERM OPPORTUNITY	LONG-TERM OPPORTUNITY
RETAIL	<ul style="list-style-type: none"> Albuquerque is a 27 million square foot retail market, with supply distributed fairly evenly between the various submarkets. The Southeast Heights submarket, of which the study area is a subset, represents approximately 10% of Albuquerque's supply. A concentration of higher-end "lifestyle" retail exists in the Uptown submarket located directly to the northwest of the study area. The study area is characterized by several large warehouse retailers, RV dealers, and two grocery-anchored neighborhood centers. New retail development at Central & Eubank has proven popular with nearby employees. Few restaurants exist to serve the enormous employee base represented by Sandia Labs and Kirtland AFB. 	<ul style="list-style-type: none"> Vacancies in the Southeast Heights submarket are currently approximately 3.5%, though historically closer to the metro-wide average of 8%. The highest vacancies exist in the West Mesa, Downtown, and Uptown submarkets, and only Cottonwood has a lower vacancy rate than Southeast Heights. Demand for a number of retail types exceeds supply in the study area, chief among them restaurants catering to both local residents and employees of Sandia and Kirtland. Substantial additional demand potential could come from communities located directly east of Albuquerque. 	<p>★★★★ Strong</p> <ul style="list-style-type: none"> The study area is currently underserved by approximately 160,000 square feet of neighborhood/local and freestanding retail. Approximately half of the retail demand is expected to be generated by study area residents. The other half of the unmet retail demand is mostly generated by East Mountain households, but also area employees. Restaurants are a significant component of the unmet demand (over 25,000 square feet). 	<p>★★★★ Strong</p> <ul style="list-style-type: none"> Demand for neighborhood/local and freestanding retail increases by 50,000 to over 210,000 square feet by 2015. Nearly 200,000 of power center retail may be supportable by 2015, but is largely dependent upon capturing spending from East Mountain households. It will be difficult, even in the long-term, to capture regional retail spending with the presence of Uptown retail nearby

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LAND USE	SUPPLY CONDITIONS	DEMAND CONDITIONS	NEAR-TERM OPPORTUNITY	LONG-TERM OPPORTUNITY
INDUSTRIAL	<ul style="list-style-type: none"> Albuquerque is a 36 million square foot industrial market, with most inventory located in the North I-25 and Rio Rancho submarkets. Overall, roughly half of Albuquerque's supply consists of general industrial space, while 40% is warehouse/flex space and 10% is R&D/flex space. The Southeast Heights submarket represents less than 4% of the total metro-wide supply of industrial space. A wide range of industrial buildings stock exists, from small light manufacturing facilities to larger high-tech buildings. 	<ul style="list-style-type: none"> The overall vacancy rate in Albuquerque is approximately 6.5%. Vacancies in the Southeast Heights submarket are currently 7%, but was typically in the 3 to 4% range over the past few years. The only submarkets that are struggling are Downtown and North Valley, both with vacancies around 14%. Rents for R&D/flex space in the Southeast Heights submarket are at the top of the Albuquerque market, at a 60% premium above the metro-wide average. 	<p>★★★★ Strong</p> <ul style="list-style-type: none"> Southeast Heights' vacancy rates over the past several years indicate that the submarket is undersupplied. Anecdotal evidence also suggests that demand for new light industrial space exceeds supply in the study area. We estimate cumulative demand to range from 240,000 to 270,000 square feet of space in the study area by 2015, assuming a 10% target vacancy rate. Potential budget cuts at Sandia Labs and/or Kirtland AFB may limit the need for support services and related industrial occupants. 	<p>★★★ Moderate</p> <ul style="list-style-type: none"> Long-term, we anticipate that an increase in the study area's capture of metro-wide demand (given the eventual build-out of other submarkets) could help mitigate any potential contraction of Sandia or Kirtland operations. By 2022, we estimate an additional 140,000 to 270,000 square feet of demand potential for new industrial space in the study area.

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LAND USE	SUPPLY CONDITIONS	DEMAND CONDITIONS	NEAR-TERM OPPORTUNITY	LONG-TERM OPPORTUNITY
RESIDENTIAL	<ul style="list-style-type: none"> The study area consists of primarily low-density for-sale residential product, although new rental projects have recently appeared near the Sandia Tech Park. A limited supply of new for-sale product exists at the southern end of Juan Tabo. Home prices range widely, with the top of the market represented by the Four Hills community in the southeast corner of the study area. 96% of the rental apartment stock was built before 1990. Significant concentrations of low-income and mobile home product exist in the area. 	<ul style="list-style-type: none"> Ownership attached/multifamily product has limited acceptance market-wide. Owner-occupied attached units have declined since 2000. Apartment vacancies in the submarket are much higher than the metro average, though newer properties near Sandia/Kirtland are faring better. There were 310 resales in 2007, well below the statistical demand potential of 500 to 700 resale transactions per year. 	<p>★ Very Limited</p> <ul style="list-style-type: none"> We estimate a net new ownership housing demand of approximately 120 units per year, although only 70 are priced above \$150,000. The net new rental apartment demand is approximately 40 units per year, although only half are at Class A¹ rents (demand-equivalent of one 200-unit project every 10 years). 	<p>★★ Limited</p> <ul style="list-style-type: none"> The long-term annual demand is expected to remain relatively the same, although the study area may increase its regional capture as the area improves.
KEY	★ Very Limited	★★ Limited	★★★ Moderate	★★★★ Strong

¹ Scale ranges from Class A through Class C, with Class A buildings representing the high end of the market in terms of prestige, quality, rents/prices, and users.

Appendix 2

**MARKET OPPORTUNITY DETAIL
EAST GATEWAY SECTOR DEVELOPMENT PLAN AREA
ALBUQUERQUE, NM**

OVERALL CRITICAL FACTORS

- The City needs to show commitment to the area by initiating and facilitating redevelopment.
- Consider development incentives such as reduced impact fees to jumpstart development.
- Streetscaping and design requirements need to be reasonable to attract developers.
- Easing or expediting the development process may help boost interest in the study area.
- Redevelopment efforts should be concentrated in specific nodes rather than spread out.
- The need to create larger parcels through assemblage may be a deterrent to new development.

LAND USE	SUPPORTED SCALE	DESCRIPTION OF OPPORTUNITY	CRITICAL SUCCESS FACTORS	LIMITING FACTORS
OFFICE	<ul style="list-style-type: none"> • 80,000 to 125,000 SF of demand by 2015 • Additional 60,000 to 125,000 SF by 2022 	<ul style="list-style-type: none"> • Most office demand will likely come from businesses related to either Sandia Labs/ Tech Park or Kirtland AFB for the foreseeable future. • Long-term additional demand could come from small local-serving businesses such as those providing professional services. • Flexible office space serving the needs of foreign nationals unable to enter Kirtland AFB could represent a strong immediate opportunity. • Better I-40 access relative to the rest of the Southeast Heights submarket means that the study area should be able to capture most of that demand. 	<ul style="list-style-type: none"> • Concentrate office space in nodes close to existing employment or retail clusters. • Initially, this will likely be near the intersection of Central and Eubank or near the Sandia Tech Park. • To draw additional businesses to the study area, surrounding land uses will likely need additional supportive amenities (restaurants, shopping, services, etc.). 	<ul style="list-style-type: none"> • The study area's relatively negative perception is a deterrent to new residents and thus new employers, and vice versa. • Lack of enough supporting land uses makes the study area less competitive with more established submarkets in Albuquerque.

Appendix 2

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ALBUQUERQUE, NM**

LAND USE	SUPPORTED SCALE	DESCRIPTION OF OPPORTUNITY	CRITICAL SUCCESS FACTORS	LIMITING FACTORS
RETAIL	<ul style="list-style-type: none"> • 160,000 SF of unmet demand in 2008 • Additional 50,000 SF by 2015 	<ul style="list-style-type: none"> • Local residents are underserved by restaurants and grocery stores in the area. • Local employees at Sandia Labs, Sandia Tech Park, and Kirtland AFB represent an enormous retail customers base that currently has to venture outside the study area for meals, etc. • An opportunity exists to establish a regional retail node at Central and Eubank, as well as a local retail node at Central and Juan Tabo. • The study area is likely unsuitable for super-regional or "lifestyle" retail in the foreseeable future. 	<ul style="list-style-type: none"> • Concentrate retail space in nodes, rather than in strip centers or along Central. • That said, retailers targeting local employees could orient themselves along Eubank to capture Sandia and Kirtland personnel exiting the Eubank Gate at lunchtime or after hours. • Retail space located closer to I-40 would be better positioned to capture East Mountain household spending, a critical demand source. • Support local retailers (particularly restaurant chains) to the extent possible. 	<ul style="list-style-type: none"> • The study area's relatively negative perception may limit evening/nighttime retail activity. • Residents coming from communities located directly east of Albuquerque may not find it very onerous to drive past the study area given easy I-40 access. • The wide range of household incomes found in the study area can make it more difficult to find market support for any given class of retailer.

LAND USE	SUPPORTED SCALE	DESCRIPTION OF OPPORTUNITY	CRITICAL SUCCESS FACTORS	LIMITING FACTORS
INDUSTRIAL	<ul style="list-style-type: none"> • 240,000 to 270,000 SF demand by 2015 • Additional 140,000 to 270,000 SF by 2022 	<ul style="list-style-type: none"> • The study area is already known for high-tech industrial land uses. • Most industrial demand will likely come from businesses related to either Sandia Labs/Tech Park or Kirtland AFB for the foreseeable future. • Although it is unlikely that major manufacturing or industrial tenants requiring truck access will end up in the study area, we do not think these types of uses are a good fit anyway. 	<ul style="list-style-type: none"> • Continue to support industrial tenants, particularly high-tech ones that bring with them high-paying jobs and improve the area's overall perception. • Any design requirements imposed by the City must carefully balance the desire for improved aesthetics with the realities of having industrial tenants. 	<ul style="list-style-type: none"> • The study area's full potential may not be realized due to limited to no availability of for-sale land in the Sandia Technology Park; developers indicate that building on leased land is significantly less economically feasible than doing so on for-sale land.

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RESIDENTIAL	<ul style="list-style-type: none"> • 70 net new owners per year over \$150,000 home price • 20 net new apartment renters per year paying over \$690 per month. 	<ul style="list-style-type: none"> • Given the lack of market acceptance of attached product, small-lot homes adjacent to walkable retail may present the strongest ownership opportunity; flats and townhomes are risky. • Rental apartments in limited quantities near major employment nodes or walkable retail could work. • Residential projects fronting Central are unlikely to make sense in the near term. • Attracting younger households, particularly Sandia/Kirtland recruits from outside Albuquerque who desire walkable environments and lack negative pre-conceptions of the study area, could represent the best opportunity. • Military retirees are also a potential target market for apartments and single-level homes. 	<ul style="list-style-type: none"> • Albuquerque in general, and the study area in particular is unlikely to support overly high-density products in the near term. • Improved streetscaping and safety is needed. • Additional and better surrounding land uses (retail, services) will likely need to be in place before residential becomes a viable option for employees of Sandia Labs and Tech Park. 	<ul style="list-style-type: none"> • The negative perception of the study area limits residential viability more than any other potential land use.