

# Market Intelligence Report 2013 Albuquerque

September 9, 2013 / By Michael Handy



Headwinds persist for Albuquerque, which continues to experience anemic growth and face challenges brought on by the recent recession. According to the Mountain Monitor, Albuquerque ranks 91st out of 100 metro areas in overall recovery from the downturn. The following graphic illustrates Albuquerque's ranking relative to other metropolitan areas in the U.S.



Heavy dependence on government spending, high unemployment, a limited number of construction starts, low economic output, and decreased passenger traffic through Albuquerque International Sunport all characterize the economic woes in Albuquerque. Nevertheless, the city has some bright spots, including a highly educated workforce, a well-established medical sector, a budding film industry, and the University of Mexico, which continue to be the driving forces behind hotel demand in Albuquerque.

## Economy Update

The following table illustrates historical and projected employment, population, and income data for the overall Albuquerque market.

### HISTORICAL & PROJECTED EMPLOYMENT, HOUSEHOLDS, POPULATION, AND HOUSEHOLD INCOME STATISTICS

Year	Total		Office		Industrial		Households		Population		Household	
	Employment	% Chg	Employment	% Chg	Employment	% Chg	Households	% Chg	Population	% Chg	Avg. Income	% Chg
2000	361,800	—	117,774	—	45,702	—	283,900	—	736,640	—	\$70,107	—
2001	361,070	(0.2) %	118,008	0.2 %	42,980	(6.0) %	289,420	1.9 %	749,470	1.7 %	73,821	5.3 %
2002	362,290	0.3	118,654	0.5	41,556	(3.3)	295,910	2.2	765,010	2.1	72,963	(1.2)
2003	364,270	0.6	119,372	0.6	39,732	(4.4)	302,190	2.1	780,190	2.0	75,519	3.5
2004	374,330	2.8	123,125	3.1	39,576	(0.4)	309,920	2.6	799,150	2.4	78,811	4.4
2005	382,770	2.3	125,291	1.8	40,413	2.1	318,510	2.8	820,550	2.7	81,362	3.2
2006	394,070	3.0	128,041	2.2	41,691	3.2	326,920	2.6	840,980	2.5	85,256	4.8
2007	395,870	0.5	129,538	1.2	40,589	(2.6)	333,740	2.1	856,910	1.9	87,888	3.1
2008	390,570	(1.3)	129,532	(0.0)	38,025	(6.3)	339,350	1.7	869,800	1.5	88,899	1.2
2009	373,870	(4.3)	125,354	(3.2)	33,570	(11.7)	345,280	1.7	883,390	1.6	86,470	(2.7)
2010	371,430	(0.7)	124,513	(0.7)	33,387	(0.5)	350,090	1.4	895,340	1.4	87,095	0.7
2011	370,530	(0.2)	122,453	(1.7)	33,755	1.1	352,720	0.8	903,000	0.9	89,170	2.4
2012	368,470	(0.6)	121,514	(0.8)	33,534	(0.7)	356,050	0.9	911,640	1.0	87,233	(2.2)

*Forecasts*

## Summary

Albuquerque continues to experience anemic growth and challenges brought on by the recession. Nevertheless, major private and public economic anchors have held strong, and new developments promise more demand for area hotels.

1 Comments

## FILED UNDER CATEGORIES

Economic Trends and Cycles

North America

2013	370,450	0.5 %	121,411	(0.1) %	33,671	0.4 %	359,940	1.1 %	922,170	1.2 %	\$88,540	1.5 %
2014	376,470	1.6	122,871	1.2	33,925	0.8	364,800	1.4	934,220	1.3	91,871	3.8
2015	384,310	2.1	124,709	1.5	34,455	1.6	370,520	1.6	947,790	1.5	94,809	3.2
2016	391,810	2.0	126,971	1.8	34,806	1.0	376,620	1.6	962,660	1.6	97,636	3.0
2017	397,760	1.5	128,992	1.6	34,821	0.0	382,650	1.6	976,930	1.5	100,708	3.1
<b>Average Annual Compound Change</b>												
2000 - 2012	0.2 %		0.3 %		(2.5) %		1.9 %		1.8 %		1.8 %	
2000 - 2007	1.3		1.4		(1.7)		2.3		2.2		3.3	
2007 - 2010	(2.1)		(1.3)		(6.3)		1.6		1.5		(0.3)	
2010 - 2012	(0.4)		(1.2)		0.2		0.8		0.9		0.1	
Forecast 2012 - 2017	1.5 %		1.2 %		0.8 %		1.5 %		1.4 %		2.9 %	

Source: REIS Report, 4th Quarter, 2012

Albuquerque's total employment has experienced declines since 2008; however, the region's unique blend of cultural and outdoor opportunities coupled with beautiful weather and a relatively low cost of living have made the city popular for relocations. Although the market is anticipated to remain weak through 2013, institutions such as the University of New Mexico and an increasingly active film industry render Albuquerque fairly resilient, especially as the national economic climate continues to improve. In addition, new mixed-used projects now under development should continue to make Albuquerque attractive for households and corporate relocations.

The following table illustrates unemployment statistics for Albuquerque, the MSA, the state of New Mexico, and the U.S. from 2002 to 2011.

#### UNEMPLOYMENT STATISTICS

Year	City	MSA	State	U.S.
2002	6.7 %	5.9 %	5.7 %	5.8 %
2003	7.2	6.4	6.1	6.0
2004	6.6	5.9	5.6	5.5
2005	5.8	5.2	5.1	5.1
2006	4.8	4.4	4.3	4.6
2007	4.2	3.9	3.8	4.6
2008	5.3	4.9	4.8	5.8
2009	9.0	8.3	8.1	9.3
2010	9.9	9.0	8.9	9.6
2011	9.1	8.3	8.3	9.0
<i>Recent Month - Dec</i>				
2011	8.8 %	7.9 %	7.7 %	8.5 %
2012	8.0	7.4	7.5	7.8

\* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation implemented by the BLS.

Source: U.S. Bureau of Labor Statistics

Albuquerque posted 13 consecutive months of negative job growth ending December 31, 2012, and unemployment has continued to increase in 2013. Continued stagnation in the area's economy and the federal government does not allow for much near-term optimism in the employment picture for Albuquerque. Several of the market's largest employers, including Kirkland Air Force Base, will likely reduce civilian employment in the next few years. A number of government contractors with a presence in Albuquerque, including Fiore Industries, will need to reduce local employment levels as well in order to stay viable. A recent study by the University of New Mexico estimated that 20,000 jobs could be lost due to the so-called "sequestration" enacted by Congress in early 2013. Nevertheless, in fiscal year 2012, Sandia National Laboratories paid an estimated \$402 million to small businesses in New Mexico and expects to continue to experience budget and staffing increases. In addition, the possibility of the state approving an increase in film tax rebates should provide an incentive for more film production and overall spending at Albuquerque Studios and filming locations in the area.

#### Office Space Market Update

The following table details Albuquerque's office space statistics, which are important indicators of the market's propensity to attract commercial hotel demand.

#### OFFICE SPACE STATISTICS – MARKET OVERVIEW

Submarket	Inventory		Occupied Office Space	Vacancy Rate	Average Asking Lease Rate
	Buildings	Square Feet			
1 Downtown	47	3,414,000	2,854,100	16.4 %	\$16.55
2 North Valley/I-25	48	2,170,000	1,751,200	19.3	18.12
3 NW/Rio Rancho	21	384,000	329,900	14.1	17.22

4 Northeast Heights	88	2,507,000	1,995,600	20.4	14.50
5 Uptown	64	2,310,000	1,848,000	20.0	16.92
6 Airport/Southeast	62	2,785,000	2,445,200	12.2	14.92
<b>Totals and Averages</b>	<b>330</b>	<b>13,570,000</b>	<b>11,224,000</b>	<b>17.3 %</b>	<b>\$16.17</b>

Source: REIS Report, 4th Quarter, 2012

Albuquerque's office market continues to face the same challenges as the city as it tries to recover from the effects of the recession. Vacancy rates remain elevated, stemming from the city's consistently high unemployment levels; vacancy rates remained higher than the national average of 15.4% for the fourth quarter of 2012. The absorption of 65,000 square feet for Lowe's Home Improvement's customer-service call center in the first half of 2012 has provided the market with some positive stimulus.

The following table illustrates a trend of office space statistics for the overall Albuquerque market.

#### HISTORICAL AND PROJECTED OFFICE SPACE STATISTICS – GREATER MARKET

Albuquerque Market							
Year	Available Office Space	% Chg	Occupied Office Space	% Chg	Vacancy Rate	Asking Lease Rate	% Chg
2000	13,821,000	—	12,326,000	—	10.8 %	\$14.83	—
2001	13,839,000	0.1 %	12,129,000	(1.6) %	12.4	14.80	(0.2) %
2002	13,901,000	0.4	12,054,000	(0.6)	13.3	14.97	1.1
2003	13,891,000	(0.1)	11,841,000	(1.8)	14.8	14.97	0.0
2004	13,923,000	0.2	12,031,000	1.6	13.6	15.16	1.3
2005	13,930,000	0.1	12,318,000	2.4	11.6	15.41	1.6
2006	13,801,000	(0.9)	12,141,000	(1.4)	12.0	15.75	2.2
2007	13,590,000	(1.5)	12,107,000	(0.3)	10.9	16.22	3.0
2008	13,661,000	0.5	11,992,000	(0.9)	12.2	16.37	0.9
2009	13,827,000	1.2	11,796,000	(1.6)	14.7	16.27	(0.6)
2010	13,583,000	(1.8)	11,336,000	(3.9)	16.5	16.18	(0.6)
2011	13,570,000	(0.1)	11,279,000	(0.5)	16.9	16.08	(0.6)
2012	13,570,000	0.0	11,225,000	(0.5)	17.3	16.17	0.6
<b>Forecasts</b>							
2013	13,570,000	0.0 %	11,236,000	0.1 %	17.2 %	\$16.43	1.6 %
2014	13,635,000	0.5	11,331,000	0.8	16.9	16.77	2.1
2015	13,704,000	0.5	11,409,000	0.7	16.7	17.15	2.3
2016	13,820,000	0.8	11,558,000	1.3	16.4	17.66	3.0
2017	13,942,000	0.9	11,715,000	1.4	16.0	18.23	3.2
<b>Average Annual Compound Change</b>							
2000 - 2012		(0.2) %		(0.8) %			0.7 %
2000 - 2007		(0.2)		(0.3)			1.3
2007 - 2010		(0.0)		(2.2)			(0.1)
2010 - 2012		(0.0)		(0.5)			(0.0)
Forecast 2012 - 2017		0.5 %		0.9 %			2.4 %

Source: REIS Report, 4th Quarter, 2012

Demand for office space is heavily dependent on the health of overall employment in Albuquerque. As such, until the labor market exhibits signs of strengthening, office vacancy rates will remain elevated.

#### Hotel Construction Update

According to HVS research, one new hotel, the Hampton Inn & Suites, is currently in the pipeline for the Albuquerque lodging market. Hence, the percentage increase to the overall market supply will be minimal in the near term.

#### Outlook on Market Occupancy and Average Rate

With the city still struggling from the recession and the uncertainty of the effects of the sequester, occupancy for Albuquerque's hotels is anticipated to remain weak over the next several quarters. Passenger traffic counts at Albuquerque International Sunport continue to decline as commercial and group demand remains soft. A \$20-million renovation of the Albuquerque Convention Center may help attract much-needed group business to Albuquerque; however, the city will continue to battle uphill with similarly sized cities for convention business. Leisure travel should remain strong, as Albuquerque has recently been awarded several accolades that have helped its marketing efforts to potential tourists. In addition, numerous special events, including the Balloon Fiesta and the Gathering of Nations Pow Wow, should continue to attract hotel demand. Meanwhile, average rate in the city is likely to remain muted, as hoteliers are unable to push rate in the absence of strong levels of

demand.

### **Conclusion**

Albuquerque's hotel market will likely remain on a struggling course through the near term. Unemployment levels are expected to remain high, as the sequestration will affect many aspects of the economy. However, Albuquerque does benefit from several institutions that work with a multitude of clients, including the multibillion-dollar Sandia National Laboratories and the well-established University of New Mexico. In addition, the healthcare sector and a fledgling film industry should continue to enhance demand levels in Albuquerque once market fundamentals rebound, providing for a more encouraging outlook for the local hotel industry in the coming years.

### **About Michael Handy**



Michael is a Vice President with our satellite Consulting and Valuation division in Austin, Texas. Michael earned his bachelor's degree from the University of Nevada Las Vegas and has extensive front-line hotel experience in large casino hotel and resort operations. Both his hotel operations and real estate experience allow Michael to provide a level of insight and expertise critical to the hotel appraisal or consulting assignment. As an Vice President, Michael oversees and executes site inspections, analysis, and report preparation for our valued clients. Contact Michael at +1 (978) 808-7852 or

[email protected]