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Office Market Update

Santa Fe, New Mexico
QIV • 2011



Santa Fe Office Market

The Metro Santa Fe Office Market took another turn for the worse in 2011. The overall vacancy rate increased from 12.6% in 2010, to a whopping 15.51% today. This figure is approaching Santa Fe's all time vacancy rate high of 18.1% recorded in 1988.

The ballooning office vacancy rate correlates directly to Santa Fe's declining job numbers. According to the U.S. Bureau of Labor Statistics, employment in Santa Fe County is down about 8.7% since 2008's peak of 65,710 wage earners.

Despite a slight increase in small business tenants evaluating the market, those same tenants are still largely interested in short-term leases at bargain terms. Most 2011 transactions of magnitude were in the form of lease renewals/extensions or building purchases but overall absorption rates turned sharply negative in all sub-markets but the Medical District.

Downtown

There are several large, contiguous blocks available downtown. The "First Interstate Building" as originally known, is still reeling from the hole left by the Thornburg's move to the Northwest Quadrant. Overall the Downtown sub-market has experienced severe job loss in finance, real estate, and the insurance industries, which directly affects office leasing. Over 205,000 square feet is available for lease or 20.52% sub-market vacancy rate.

South Capital District

The area surrounding the section of St. Francis Drive and Cordova Road is showing the most favorable vacancy rate in the city at 3.53%. The area has historically been the most responsive to market conditions and prices rents accordingly. Nevertheless, the area's vacancy rate increased from 2.13% in 2010 with a 3,200 square foot loss due to a net negative absorption.

MARKET INDICATORS

| | 2011 |
|----------------|------|
| VACANCY | ↑ |
| NET ABSORPTION | ↓ |
| CONSTRUCTION | ↓ |
| RENTAL RATES | ↔ |
| Forecast | 2012 |
| VACANCY | ↔ |
| NET ABSORPTION | ↔ |
| CONSTRUCTION | ↓ |
| RENTAL RATES | ↓ |

Santa Fe 2011 Office Market Statistics

| | Net Space | Space Available | 2011 Vacancy | Planned Space | 2009-2011 Net Absorption |
|-------------------------------|------------------|-----------------|---------------|----------------|-----------------------------|
| Downtown | 1,000,013 | 205,180 | 20.52% | 45,000 | (79,398) |
| South Capitol District | 227,737 | 8,050 | 3.53% | 0 | (3,199) |
| Cerrillos Corridor | 98,500 | 10,079 | 10.23% | 0 | (4,462) |
| Medical District | 540,894 | 38,213 | 7.06% | 84,000 | 8,330 |
| Southside | 909,358 | 190,805 | 20.98% | 215,000 | (42) |
| Westside* | 467,953 | 50,850 | 10.87% | 24,000 | (22,222) |
| TOTALS | 3,244,455 | 503,177 | 15.51% | 284,000 | (201,986) |

*Includes Office/Warehouse. Does not include government owned buildings.

Source: Allen Branch, Branch Realty Commercial Advisors

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Medical District

From 2001 to 2009, Santa Fe's healthcare industry has grown their wage employment by over 51%. These numbers continue to support the Medical District's office occupancy numbers by posting the only positive leasing activity in the metro. Although the vacancy rate remains at a stubborn 7.06%, the Medical District positively absorbed just over 8,000 square in our latest survey.

Southside

There are also several large contiguous blocks of spaces available in the Southside sub-market, which is the area defined as south and west of St. Michael's and St. Francis Drive.

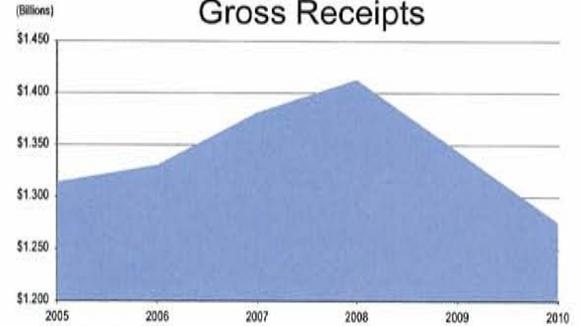
With the amount of office space available remains virtually unchanged since 2009, the area is plagued by former government buildings. The bulk of the vacant space is due to the U.S. Forest Service. For years the agency was located on Rodeo Road next to Posa's Medendero in the former Colgate Building. The 84,000 square foot building makes up nearly half of the Southside's, 190,000 vacant square feet. The Forest Service packed up from Colgate's and moved across the street into the Paisano Building at the Rodeo Business Park. Once again, the Forest Service packed up and relocated to Hwy 599 & I-25 leaving another 56,000 square foot hole in the sub-market. Today, the area suffers from the highest office vacancy rate in the city at 20.52%.

Summary

At the end of 2011, a majority of Metro Santa Fe businesses still remained cautious about expansion, or sat on shadow space that will go unused until we further emerge from recession. Thus the focus will remain on short term leases, early renewals, and/ or moves into lower cost space. Santa Fe is still feeling the effects of low or no business credit and negative employment growth in key office sectors.

We expect the sustained down market cycle to yield further low absorption in both Suburban and CBD markets over the next 18 to 24 months.

Santa Fe County Gross Receipts



Source: University of New Mexico, Bureau of Business and Economic Statistics

Branch Realty Commercial Advisors is a consulting firm offering professional expertise in urban planning, real estate analysis, market studies, and commercial real estate development services. This broad range of services enables the family firm to bring a project from the initial feasibility stage, through planning and approvals, to specific design and construction. Branch Realty Commercial Advisors provides in-depth local market knowledge for public, private, and nonprofit clients since 1979.

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Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof.



Sources: University of New Mexico, Bureau of Business and Economic Statistics, U.S. Dept. of Labor Statistics, Branch Realty Commercial Advisors