



MARKET ANALYSIS OF COMMERCIAL LEASE RATES

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Market Analysis of Commercial Lease Rates

Los Alamos MainStreet, in partnership with New Mexico MainStreet, responded to requests from developers, commercial real estate professionals, landlords, and small businesses for a market analysis of existing commercial lease rates throughout the MainStreet district. Los Alamos County also expressed interest in the study's results due to the proliferation of vacant commercial spaces in the district and whether it is economically feasible to redevelop these properties. Both large and small vacant commercial spaces have increased in the district since the onset of COVID-19.

Use of this information will:

1. Assist landlords and tenants with lease negotiations;
2. Provide realtors, property owners, bankers, and developers with the necessary information to assess risk and property redevelopment feasibility.

From July to October 2021, Los Alamos MainStreet sent out an online survey via email to over 200 small businesses in its district with the following questions:

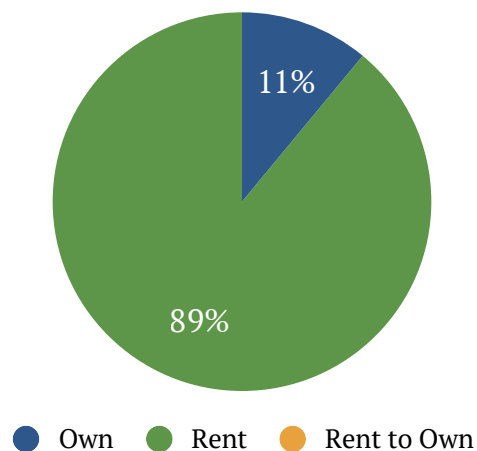
- Approximate location of business
- Whether space is owned or leased
- Sq. footage of their space (interior)
- Monthly and yearly rent
- Rent per square foot
- % of gross sales per sq. ft. spent on rent
- Party responsible for utilities and Common Area Maintenance (CAM) fee
- Lease agreement terms and status

- Tenants' tenure in spaces
- Rental rate changes
- Space buildout costs
- Commercial use of tenants' spaces
- Tenants' interest in purchasing their spaces

Survey Results

- 18 small businesses from the Los Alamos MainStreet district participated in the survey resulting in a response rate of 9%
- 89% of respondents lease their commercial spaces.

Do you own or rent your space?



Type	Monthly Rent	Size - Sq. Ft.	\$/sf/month	\$/sf/year	Utilities	CAM*
O	<\$600	<600	\$2.04	\$24.50	Tenant - Some	Yes
S	\$700 - \$800	<600	\$2.08	\$25.00	Landlord - All	Yes
O	\$1,000 - \$1,100	800-900	\$1.24	\$14.85	Tenant - All	No
R	\$1,100 - \$1,200	1,900-2,000	\$1.00	\$12.00	Tenant - All	Shared
R	\$1,300 - \$1,400	800-900	\$1.75	\$21.00	Tenant - All	Yes
S	\$1,600 - \$1,700	1,200 - 1,300	\$1.67	\$20.11	Tenant - All	Yes
F&B	\$1,700 - \$1,800	1,300 - 1,400	\$1.08	\$13.00	Tenant - Some	No
G	\$1,800 - \$1,900	1,900-2,000	\$0.92	\$1.00	Tenant - All	No
R	\$1,100 - \$1,200	1,900-2,000	\$1.00	\$12.00	Tenant - All	Shared
R	>\$2,000	1,300 - 1,400	\$1.49	\$17.86	Tenant - All	Yes
R	>\$2,000	1,600 - 1,700	\$2.08	\$25.00	Tenant - Some	Yes
O	>\$2,000	>2,000	\$1.24	\$14.88	Tenant - All	No
F&B	>\$2,000	>2,000	\$1.33	\$16.00	Tenant - Some	Yes
R	>\$2,000	>2,000	\$1.50	\$18.00	Tenant - All	Shared
R	>\$2,000	>2,000	\$2.01	\$24.17	Tenant - Some	Yes
R	>\$2,000	>2,000	\$0.86	\$10.37	Tenant - All	No

G = Gallery | O = Office | F&B = Food Beverage | S = Salon | R = Retail

*CAM = Common Area Maintenance

Data from the table above illustrates the following:

Lowest cost per square foot:

- Per month: \$0.86
- Per year: \$10.37

Highest cost per square foot:

- Per month: \$2.08
- Per year: \$25.00

Average cost per square foot:

- Per month: \$1.50
- Per year: \$17.96

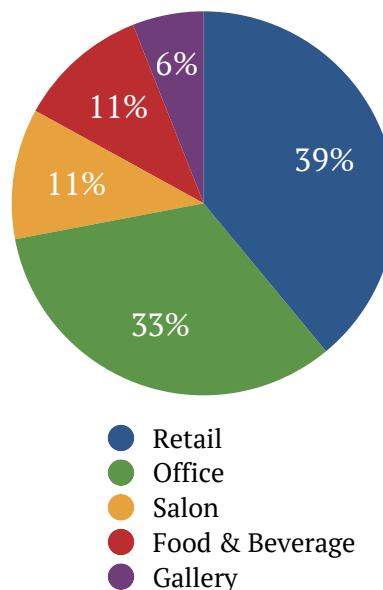
Median cost per square foot:

- Per month: \$1.49
- Per year: \$17.93

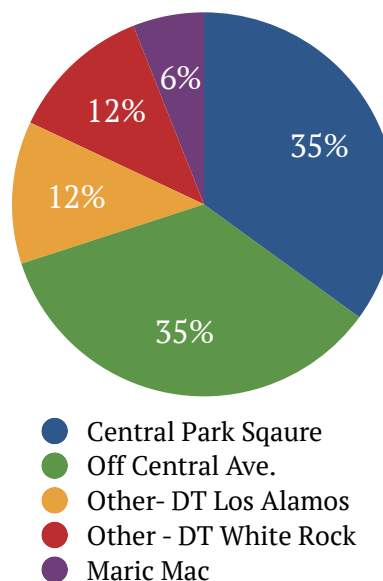
Square Footage of spaces:

- Under 600 sq. ft.: 11%
- 800 – 900 sq. ft.: 11%
- 1,200 – 1,300 sq. ft.: 1%
- 1,300 – 1,400 sq. ft.: 11%
- 1,600 – 1,700 sq. ft.: 11%
- 1,800 – 1,900 sq. ft.: 11%
- Over 2,000 sq. ft.: 39%
- The respondent reporting the lowest cost per sq. ft. per year (\$10.37), occupies one of the largest retail spaces in the district.
- Larger commercial spaces (> 1,300 sq. ft.) in the district generally skew towards having lower rents per square footage.
- However, two commercial spaces (a retail space >2,000 sq. ft. and a salon space <600 sq. ft.) both reported paying \$25.00 per sq. ft. per year.
- The average and median rent per square foot closely match, indicating that the data set is fairly balanced.

What type of use is your space?



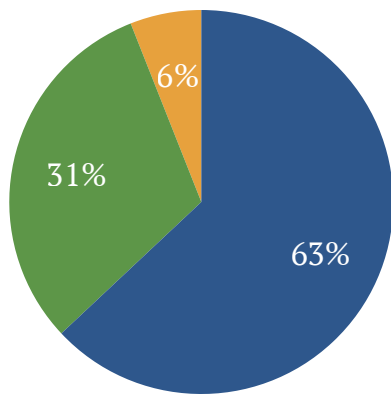
Where are you located?



Utilities

- 94% of commercial tenants pay for either some or all of their utilities
- Only 1 respondent reported that their landlord pays for all utilities (i.e., gross lease agreement)

Do you pay for utilities or does the landlord?

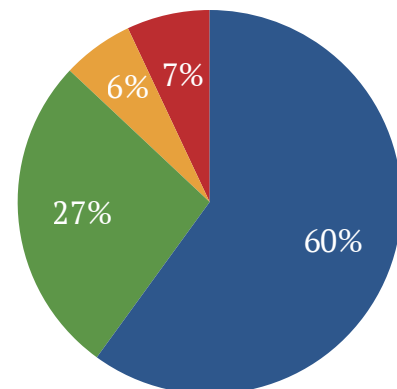


- I pay for all
- I pay for some
- My landlord pays

Space Buildout

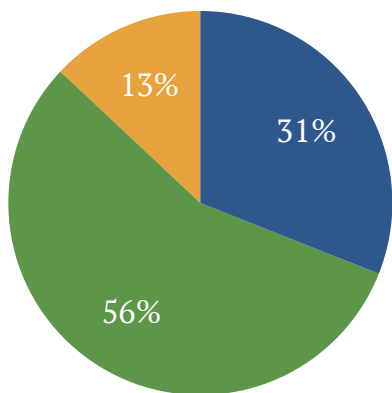
- 60 % of tenants paid for the build-out of their commercial space
- 27% reported sharing the buildout expenses with their landlord
- Only 6% of tenants had their buildout expenses paid by their landlord

Who paid for the buildout of your space?



- I did
- Landlord & I shared expenses
- My landlord
- NA - Lease Ready Space

Do you pay for any CAM fees?



- No, my landlord pays the CAM fees
- Yes
- Costs are shared between landlord & tenant

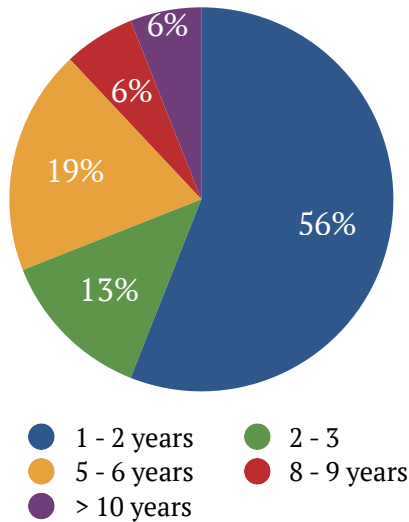
Common Area Maintenance (CAM) Fees

- 56% of tenants pay Common Area Maintenance Fees (property maintenance, insurance, repairs, administrative fees, pest control or security services)
- While just 31% of tenants have these fees paid by their landlords

Lease Rate Changes

- 56% of tenants reported that their monthly lease rates have remained the same over a 1 to 2 year time frame
- A much smaller percentage (13%) reported having their same lease rates for 2 to 3 years

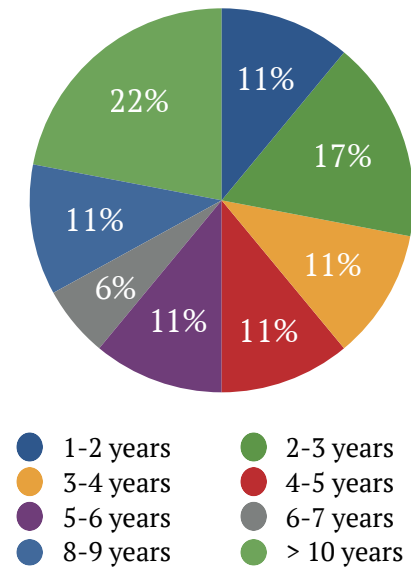
If you rent, how long has your monthly lease or rent rate remained the same?



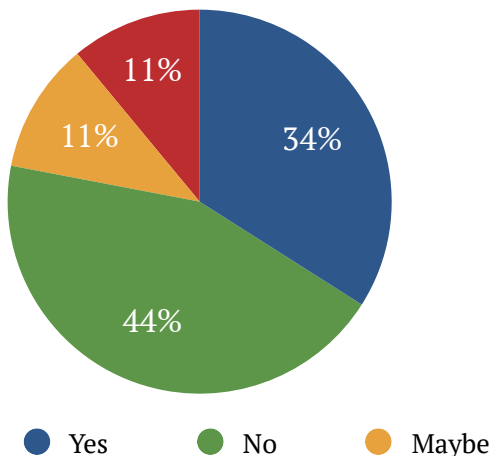
Tenant Tenure

- 28% of tenants have been in their same location for 1 to 3 years and are considered “newer businesses”
- 28% also reported being in their same location for more than 8 years, many of these businesses are considered legacy or anchor businesses for the district

How long have you been in the same location?



Interest in purchasing their space from the property owner



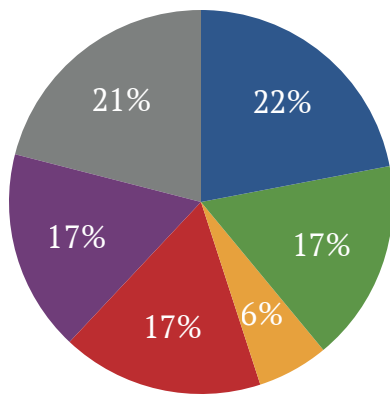
Owning Your Commercial Space

- 45% of tenants responded either “yes” or “maybe” when asked about their interest in purchasing or owning their own commercial spaces
- While 44% responded with a definite “no”

Percentage of Gross Sales Spent on Rent¹

- 23% affirmed that they spend between 5% to 10% of their gross sales per square feet on their rent
- And 22% pay less than 5% of their gross sales per square feet on their rent
- 34% pay more than 10% of their gross sales per square feet on their rent
- Overall, 45% are paying 10% or less on the calculated gross-to-rent percentage, which is considered the standard benchmark in the commercial real estate industry.

Do you spend between 5-10% of your gross sales per sq. ft. on rent?

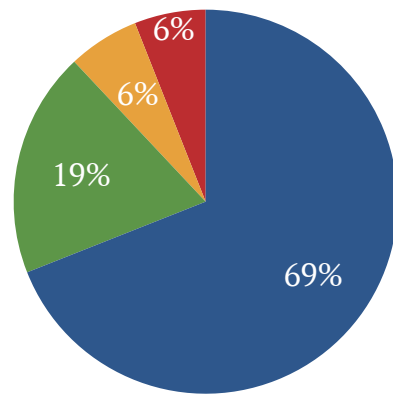


- Yes, below 5%
- Yes, between 5-10%
- Yes, over 5%
- No, over 15%
- No, between 10-15%
- Don't know

Rental Escalation Clause

- 69% of tenants of tenants reported a rental escalation clause in their lease agreements
- Rents for most of these tenants increase year over year

Does your lease agreement have a rental escalation clause?



- Yes
- No
- Maybe
- No Lease Agreement

¹ 78% of respondents reported an estimate of their annual gross sales. Knowing their annual gross sales allowed respondents to calculate if they spend between 5% to 10% of their gross sales per square foot on rent or more.

Summary of Survey Results

41% of small business tenants are located in either Central Park Square or the Mari Mac Village Shopping center, both well known multi-tenant commercial spaces in the Los Alamos MainStreet district. Vacancies in these shopping centers are particularly noticeable, and it is unknown whether in a post-pandemic world these spaces can be filled again with retail and office tenants.

Other highlights from the survey reinforce community perceptions that commercial tenants pay too much for rent. These perceptions are probably due to additional costs that tenants bear in addition to their monthly rent:

- 56% of tenants pay for their Common Area Maintenance Fees
- While 56% has the same lease or rent rates for the first year in their space, only 13% had the same lease rate in their second year
- Increases in rent rates corresponds with the 69% of tenants reporting a rental escalation clause in their lease agreements
- 60% of tenants paid for the buildout of their spaces (i.e., tenant improvements)
- 94% of tenants pay for some or all of their utilities

While small businesses have struggled during the pandemic due to mandated closures, lack of staff, and changes in customers' purchasing behaviors, property owners and landlords have experienced their own unique set of challenges, including higher maintenance and repair costs², higher insur-

ance rates, and loss of income from tenants leaving spaces or being behind on their rent.

Recommendations

With regards to the impacts increasing rents, utilities, and additional fees that tenants are responsible for:

- Los Alamos MainStreet could serve as a facilitator between landlords and tenants to improve understanding between both sides and insure that tenants are in fact paying their "fair share of the rent for their spaces."

With survey results indicating that over one third of tenants (34%) are paying more than 10% of gross sales per square foot on rent, there is room for some landlords to negotiate with tenants around reducing additional fees or restructuring lease agreements.

Regarding the need to support both small landlords and businesses, Los Alamos MainStreet in partnership with Los Alamos County could create:

- A low cost revolving loan fund to be used for rehabilitation costs and small business tenants' interior improvement needs. Loan repayments could be integrated into the city's existing utility payment platform.
- Or even better than a loan, a matching grant program targeting property and small business owners would greatly assist with older buildings' critical repairs. MainStreet districts in Las Cruces, Lovington, and Silver City have already enacted similar programs.

² The NM Legislative Finance Committee cited research from **The Associated General Contractors** showing construction costs normally increase 5%, but in June 2021 costs had increased 24% year over year.

In most MainStreet and central business districts, larger commercial spaces (> 1,300 sq. ft.) have lower rents per square foot compared to smaller spaces (< 600 sq. ft.). However, in Los Alamos, commercial lease rates are, in some cases, the same whether it is a large or small space (see survey results, pp. 3-4). This phenomena indicates that lease rates overall in the district are high. But even with higher lease rates, large vacant commercial spaces, such as CB Fox and the Reel Deal, have rehabilitation expenses that will still exceed potential rental income earned. Another recommendation to consider is the:

- Use of low-cost financing for building rehabilitation such as New Market Tax Credits to close the financing gap for activating these spaces

While public financing tools are important, redevelopment of these large commercial spaces will continue to challenge the private market without Los Alamos County having the ability to either acquire these properties and or enter into public-private partnerships. Once Los Alamos County has its Metropolitan Redevelopment Area designation and plan approved, incentives can be offered to developers without violating the state's anti-donation clause. Los Alamos County could also acquire these properties and develop mixed-use projects with affordable housing for municipal employees, teachers, office, and nonprofit workers. Ed McMahon of the Urban Land Institute is calling for multi-tenant shopping centers to be reimagined as "walkable mixed-use town centers"³. Converting vacant office and retail

spaces to residential uses is one strategy to get more people and customers into central business districts.

Finally, the majority of small businesses in the district rent their spaces (89%) When asked if they would be interested in owning their spaces, 45% expressed interest in owning their commercial spaces. Since most commercial spaces are located in either shopping centers or multi-tenant commercial spaces, it is unclear whether property ownership would be viable for the majority of small businesses in the district.

During a town hall meeting held on January 24, 2022 to discuss a proposed vacant commercial building ordinance, one entrepreneur shared his experience of attempting to buy a commercial space for his emerging business. From his experience, property owners were inflating the value of their properties in hope of securing a sale or lease agreement from Los Alamos National Laboratory. He requested assistance in purchasing a property. Salt Lake City's Economic Development Department partnered with local lenders to assist small businesses with purchasing their buildings through their "Buy Your Building" program⁴. Use of Economic Development Administration (EDA) resources may also be an option with the hopeful passage of the Revitalizing Small and Local Businesses Act (S. 3340).

- Los Alamos MainStreet and Los Alamos County should work together to assist small business owners with accessing funding and offer a program similar to the one in Salt Lake City.

³ <https://www.mainstreet.org/blogs/national-main-street-center/2021/11/03/main-spotlight-better-community-planning-economic>

⁴ <https://ilsr.org/rule/keeping-commercial-space-affordable-for-local-businesses/>

Next Steps

While not conclusive, New Mexico MainStreet and Los Alamos MainStreet anticipate that this report will assist and provide:

- Landlords, commercial real estate companies, and small businesses with better information to negotiate lease terms;
- Realtors, property owners, bankers, and developers with the necessary information to assess risk and property redevelopment feasibility; and
- Los Alamos County with a snapshot of data that will support the need for public-private partnerships, grants for commercial spaces' critical repairs, and programs to assist small businesses with the purchase of commercial spaces.

Los Alamos MainStreet and New Mexico MainStreet will continue to reach out to small businesses, property owners, and commercial real estate agents for their valuable input and participation. Surveying of lease rates and commercial spaces in the future should also include:

- Buildings' deferred maintenance needs
- Estimated value of needed improvements
- Potential for adaptive reuse of commercial properties for residential uses
- Cross tabulation of data to demonstrate differences between retail and office tenants lease rates
- Targeted outreach to the Laboratory and Lab contractors to assess whether their presence drives up lease rates
- Comparative lease rates from similar commercial districts in Santa Fe (e.g., St. Michael's Dr.)

Your feedback and comments are important to us. For additional information and questions on this report, please contact:

- Lauren McDaniel with Los Alamos MainStreet at 505-661-4844
- or Rhea Serna, with New Mexico MainStreet at 415-519-5659