

MARKET ANALYSIS OF COMMERCIAL LEASE RATES

Silver City MainStreet Project

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Market Analysis of Commercial Lease Rates

Silver City MainStreet Project, in partnership with New Mexico MainStreet, responded to requests from developers, real estate professionals, landlords, and small businesses for a market analysis of existing commercial lease rates, terms, and space considerations throughout the district.

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.

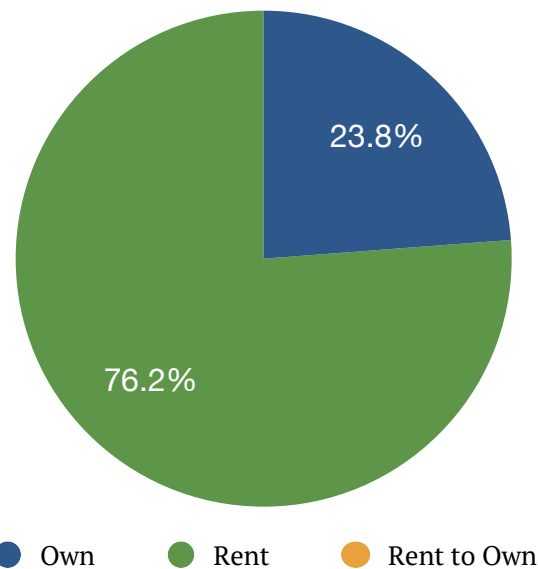
In December 2020, Silver City MainStreet Project sent out an online survey to over 120 small businesses in its district with the following questions:

- Whether their space is owned or leased
- Square footage of their space (interior)
- Monthly rent
- Utilities paid by either tenant or landlord
- Whether a lease agreement was in place
- Last time their rent amount changed
- And the commercial use of their space

Survey Results

- 25 small businesses from Silver City's MainStreet district participated in the survey resulting in a response rate of 21%.
- 76% of respondents lease their commercial spaces.

Do you own or rent your space?



Costs per square foot per month:

- Lowest: \$0.20
- Highest: \$1.25
- Average: \$0.69
- Median: \$0.56

Spatial analysis from survey respondents:

- Smallest space: 600 sq ft
- Largest space: 10,000 sq ft
- Average size of a space: 2,474 sq ft
- Median size of a space: 1,500 sq ft

Type	Monthly Rent	Size - Sq. Ft.	\$/sf/month	\$/sf/year	Utilities
E	\$700.00	600	\$1.17	\$14.00	Tenant - All
O	\$750.00	600	\$1.25	\$15.00	Tenant - All
FB	\$725.00	625	\$1.16	\$13.92	Tenant - All
R	\$425.00	800	\$0.53	\$6.38	Tenant - Some
R	\$450.00	1100	\$0.41	\$4.91	Tenant - Some
F	\$850.00	1223	\$0.70	\$8.34	Landlord - All
R / S	\$1100.00	1300	\$0.85	\$10.15	Tenant - Some
S	\$440.00	1500	\$0.29	\$3.52	Tenant - All
O	\$1,850.00	2060	\$0.90	\$10.78	Tenant - All
FB	\$800.00	2500	\$0.32	\$3.84	Tenant - All
FB	\$700.00	2800	\$0.25	\$3.00	Tenant - All
M / S	\$500.00	2800	\$0.18	\$2.14	Tenant - All
R	\$1,200.00	3200	\$0.38	\$4.50	Tenant - Some
E	\$2000.00	6000	\$0.33	\$4.00	Tenant - All
M	\$2,000.00	10000	\$0.20	\$2.40	Tenant - All

E = Entertainment | O = Office | FB = Food Beverage | R = Retail
F = Fitness | M = Manufacturing | S = School/Studio

Key data points from survey respondents include:

- 3 of the smallest commercial spaces (< 700 sq. ft.) pay a higher cost per square foot per month (\$1.19 - average) compared to the largest space in the study (\$0.20 per square foot per month)
- Larger commercial spaces (2,500 to 10,000 sq. ft.), whether they be used for manufacturing, studio, retail, or entertainment, have an average lease rate per square foot of \$0.27 and a median rate of \$0.35
- Commercial spaces between 800 and 2060 sq. ft. have an average lease rate per square foot of \$0.60 and a median rate of \$0.61

Recommendations

Because larger spaces (> 2,800 sq. ft.) have a lower cost per square foot than smaller spaces, priority vacant properties in the district such as the old JCPenney building (405 - 409 N. Bullard) and the closed Gila Theater will be difficult to sell or lease. Deferred maintenance and rehabilitation expenses will exceed income earned through rent.¹ **Use of low-cost financing such as New Market Tax Credits or building rehabilitation matching grants could close the financing gap for activating these spaces.**

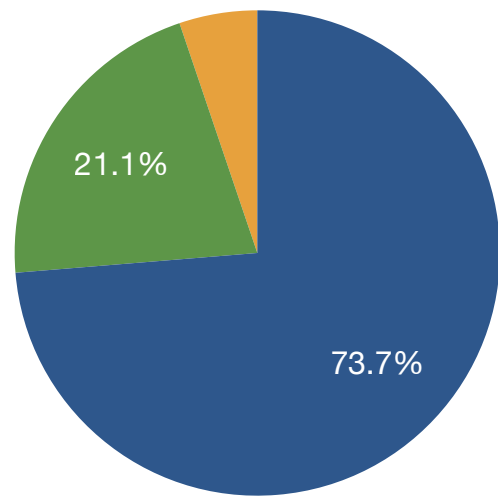
For the 76% of survey respondents that lease their spaces:

- 95% pay for some or all of their utilities
- 74% have seen their lease rate change in the past four years

Survey respondents paying either some or all of their utilities along with experiencing changes to their lease rates are probably dealing with increased occupancy costs.

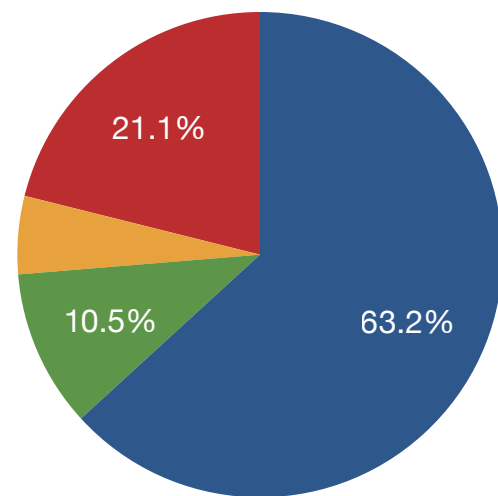
Negotiations with their landlords could

If you rent, do you pay for utilities or does the landlord?



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

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



- 1 - 2 years
- 5 - 6 years
- 3 - 4 years
- More than 6 years

¹ Increasing maintenance costs reduce net operating income resulting in reduced property value.

include better maintenance of their spaces and commitments to make necessary repairs.

With less than a quarter of small businesses in the district owning their spaces, the opportunity exists for established small business to become their own landlords. **Silver City MainStreet Project could serve as a mediator with property owners to assist tenants with purchasing their buildings either via bank loans, lease to own agreements, or direct real estate contracts with owners.** Salt Lake City's Economic Development Department² explored partnering with local lenders to assist local businesses with purchasing their buildings through their "Buy Your Building" program.³



The Buffalo Bar (211 N. Bullard) received a low-cost loan through the New Market Tax Credit program from NM Finance Authority

“Owning rather than leasing is one of the best ways to ensure stable occupancy costs. Only a small minority of independent retailers currently own their space.”

Conclusion

Silver City MainStreet Project and New Mexico MainStreet will continue to reach out to small business and property owners 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 improvements made to the buildings either by either the tenant or the building owner
- Residential rents

Since survey outreach was limited to small businesses owners, future data collection will also include owners and tenants of residential properties, along with property owners of buildings with vacant upper floors. According to Census data, Silver City's median rent for a two-bedroom apartment is between \$694 - \$844, and the fair market rent for a comparable unit ranges from \$715 - \$784.⁴ Rental income from redeveloped second floor apartments along with ground floor commercial spaces could help close the financial gap for the rehabilitation of older two-story buildings.

For additional comments and questions on this report, please contact Charmaine Wait with Silver City MainStreet at 575-534-1700 or Rhea Serna with New Mexico MainStreet at 415-519-5659.

² <http://www.slcdocs.com/ced/3point.pdf>

³ <https://ilsr.org/rule/keeping-commercial-space-affordable-for-local-businesses/>

⁴ U.S. Census data (2014 - 2018), <https://plcy.mp/vpn2cft>