

# 2012 Baton Rouge Office Market Overview

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Presented by:

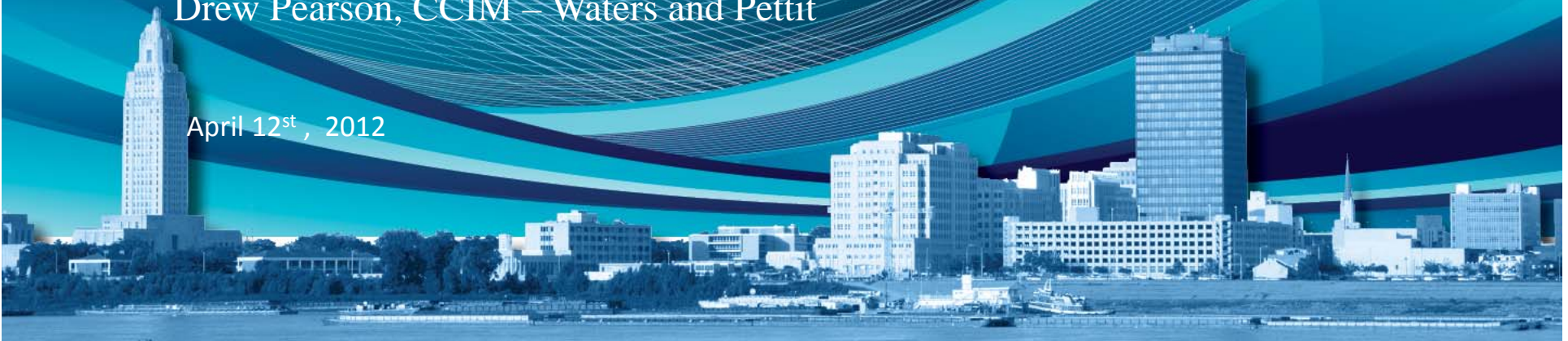
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Drew Pearson, CCIM – Waters and Pettit

April 12<sup>st</sup>, 2012





## Commercial Real Estate 2008 - 2011





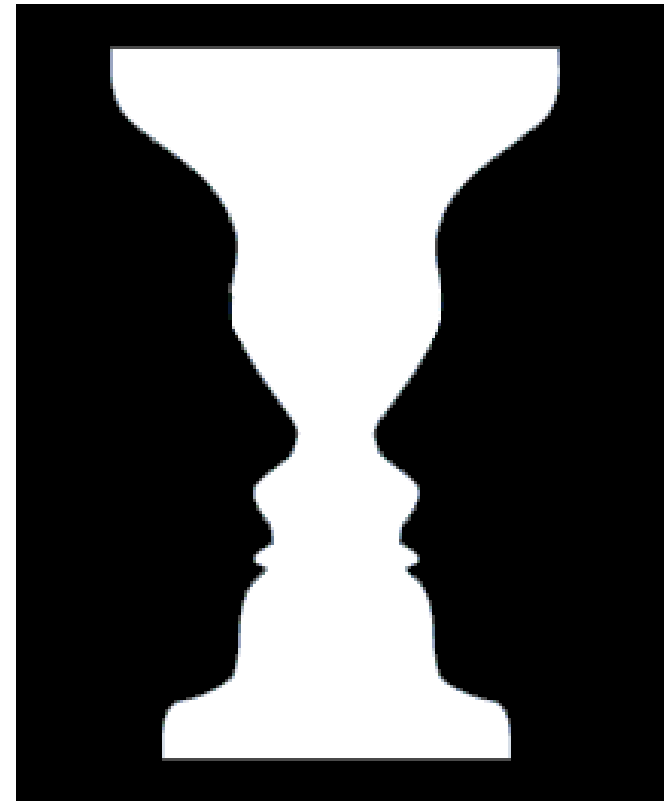
## Commercial Real Estate 2012





## 2008-2011 Market Perception

- **National Media**
- **Local Media**
- **Water Cooler Discussions**
- **Social Events**
- **Broker Talk**





# The Big Picture

How Bad Did It Really Get?

New Orleans	87%
Houston	83%
Atlanta	77%
Dallas	78%
Memphis	81%
Cleveland	78%
Detroit	72%
<b>Baton Rouge</b>	<b>82.83%</b>





## SIOR Commercial Real Estate Index Fourth Quarter 2011 Results National Trends

**SIOR Index measures 10 variables pertinent to the performance of U.S. industrial and office markets (Market Equilibrium is 100 points)**

- SIOR market experts commented on Fourth Quarter 2011 conditions revealing an SIOR Index of 63.8, up from 50.7 in the 4<sup>th</sup> Quarter 2010, which is the highest index total since Fall 2008
- Majority of SIOR members agreed leasing activity improved and vacancy rates are closing in on historical averages.
- The SIOR index indicates we have not experienced equilibrium in the market since third quarter 2007.
- 67 % of SIOR experts expect market improvement over the next three months.
- Source: Society of Industrial & Office Realtors



## Baton Rouge Market: 2012 Executive Summary

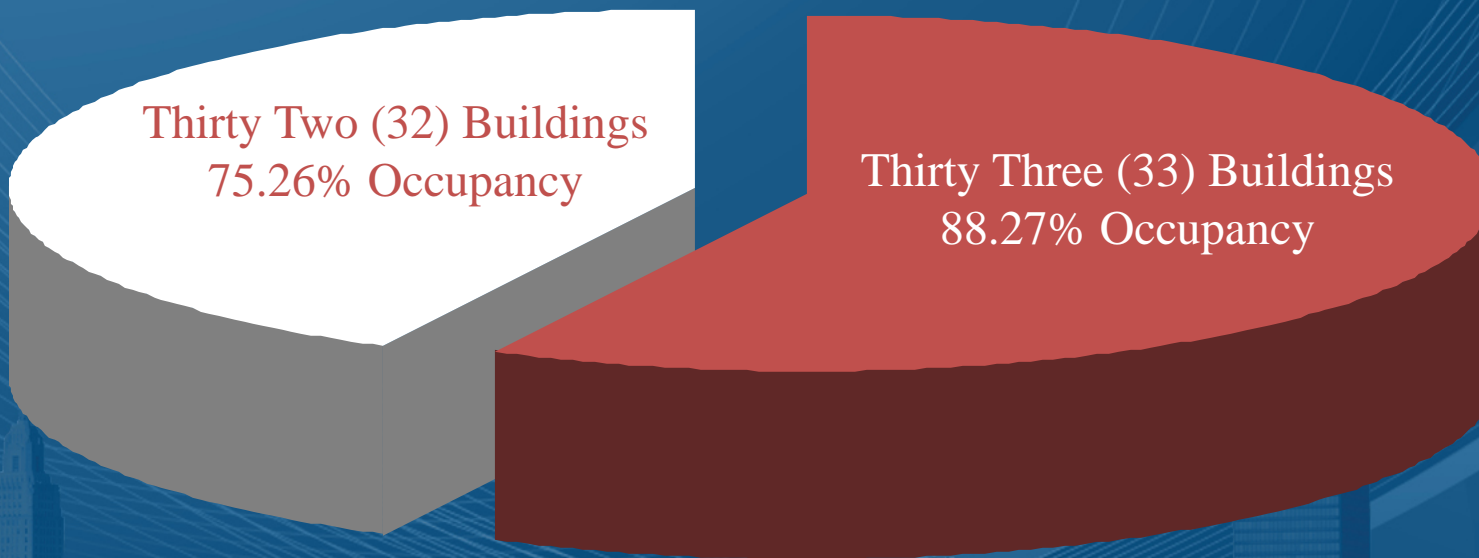
- **State privatization drives office demand in 3<sup>rd</sup> and 4<sup>th</sup> Quarter of 2011**
- **Occupancy up slightly from 2011**
- **Rental rates remain flat**
- **Most of the available sublease space absorbed in 2011 or expiring in 2012**
- **National tenant representatives continue to push for excessive leasing concessions, but Baton Rouge market able to stay within historical norms**
- **Class A spaces are in higher demand than Class B**
- **Older Class B buildings are holding vacancies much longer**



# Baton Rouge Office Market

March 2012

Class B – 2,656,989 Total Square Feet



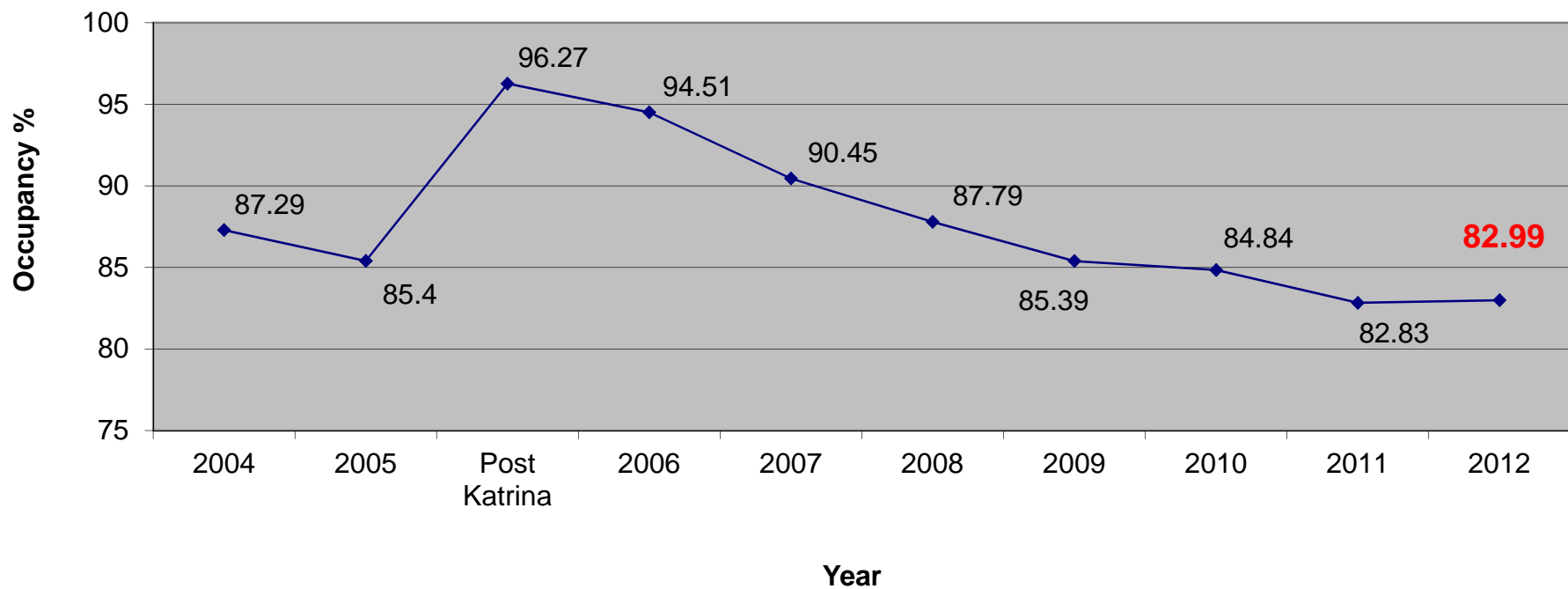
Class A – 3,890,954 Total Square Feet





# Baton Rouge Office Market Historical Occupancy

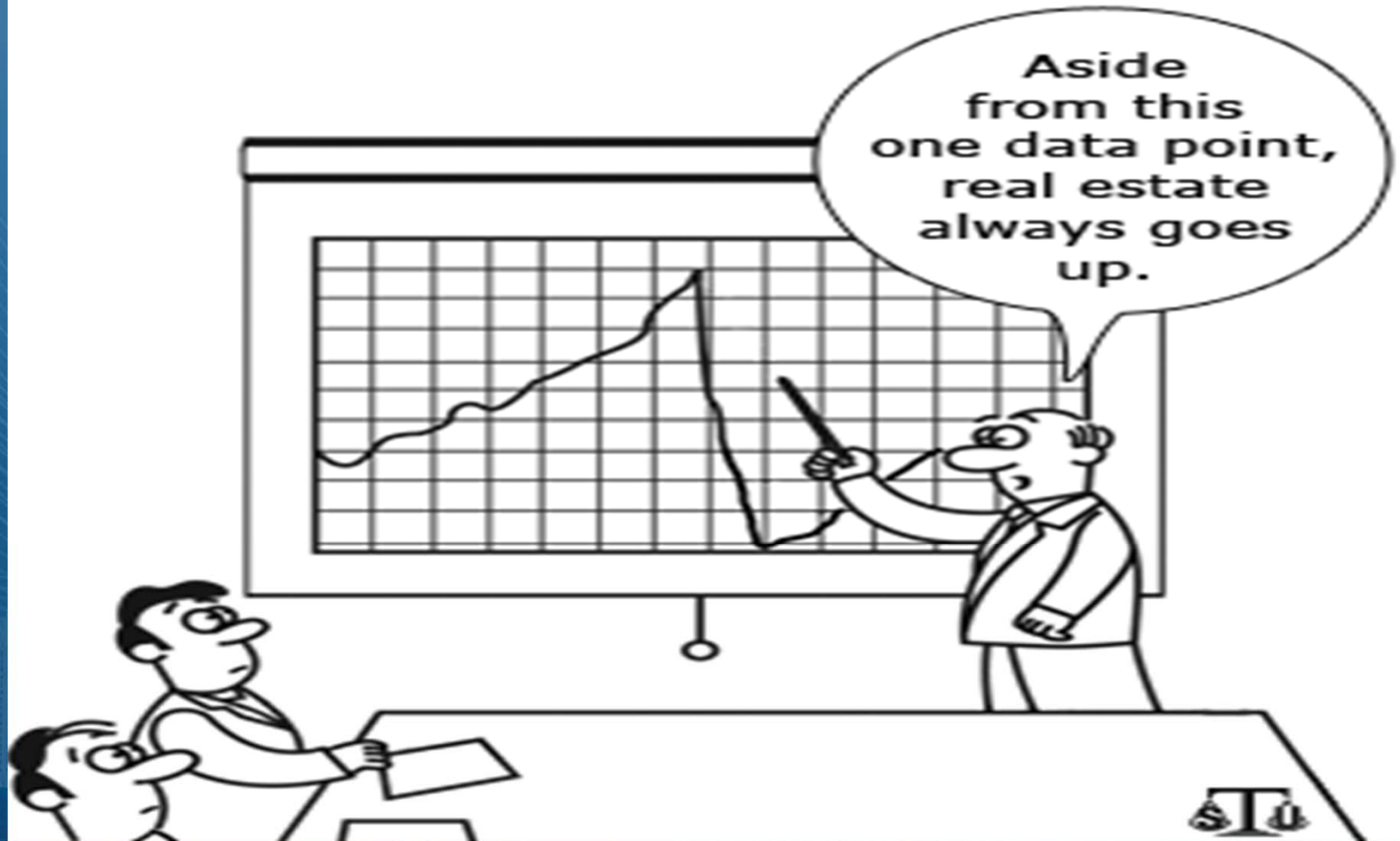
**Baton Rouge Office Market Occupancy**





Stu's Views

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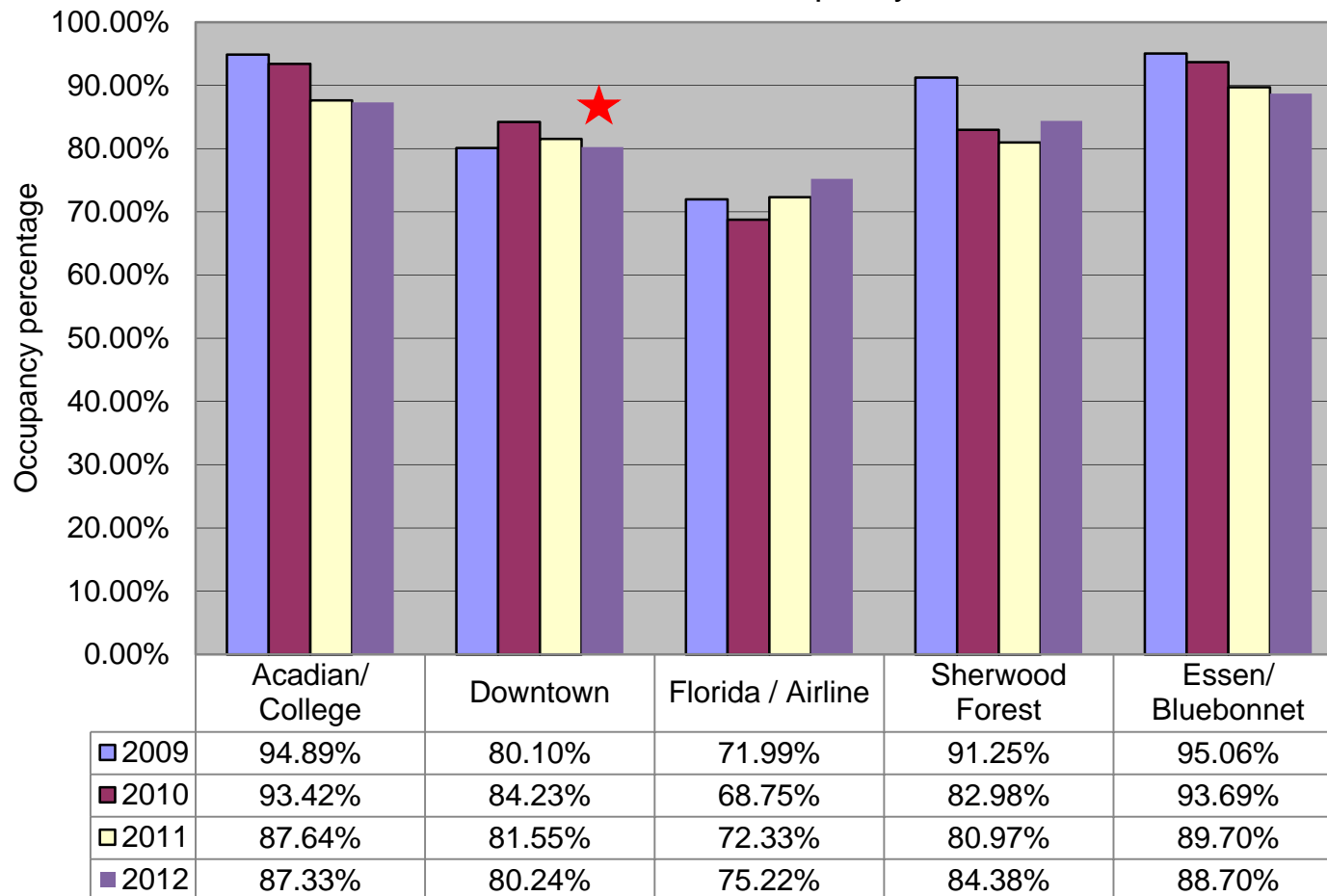
# Baton Rouge Office Market

## A & B Occupancy – March 2012

Spring 2012 Occupancy – 82.99%

★ = both Kean Miller leases included in this %

Class A & B Office Occupancy



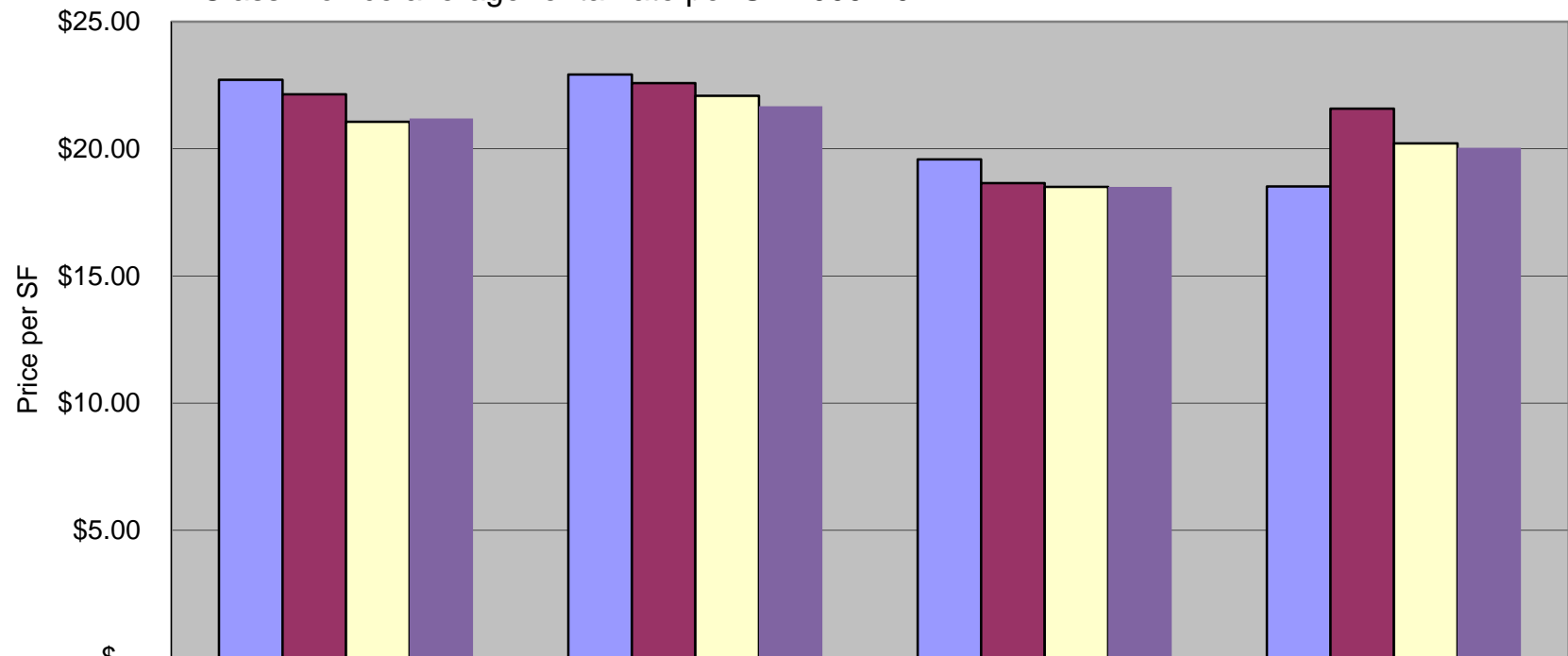


# Baton Rouge Office Market

## Class A Rental Rates - March 2011

**Class A Average - \$20.35 PSF**

Class A office average rental rate per SF 2009-2012



	Acadian/ College	Downtown	Sherwood Forest	Essen/ Bluebonnet
2009	\$22.71	\$22.92	\$19.58	\$18.52
2010	\$22.14	\$22.58	\$18.65	\$21.58
2011	\$21.06	\$22.08	\$18.50	\$20.21
2012	\$21.19	\$21.67	\$18.50	\$20.04

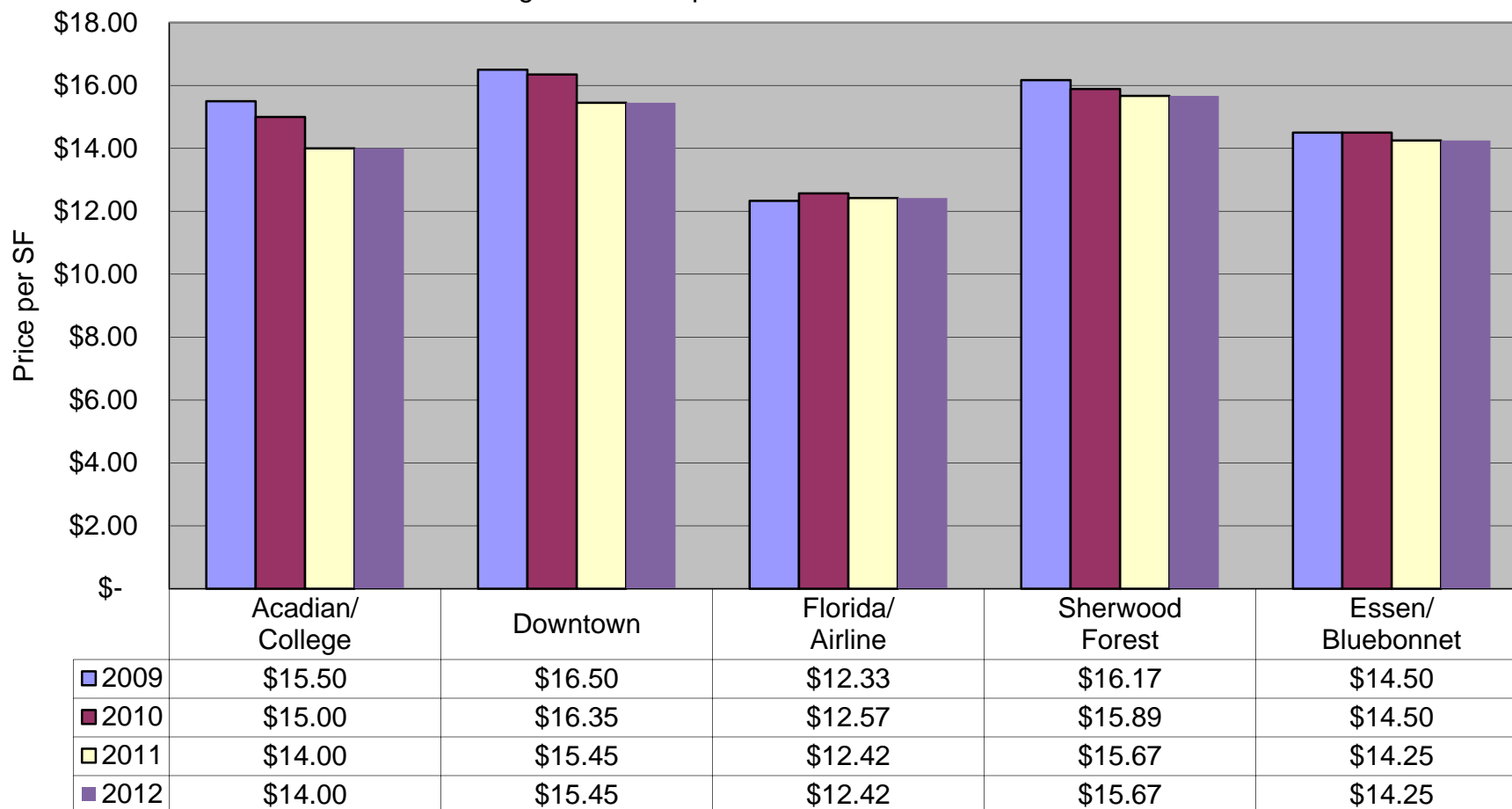


# Baton Rouge Office Market

## Class B Rental Rates - March 2011

Class B Average - \$14.36 PSF

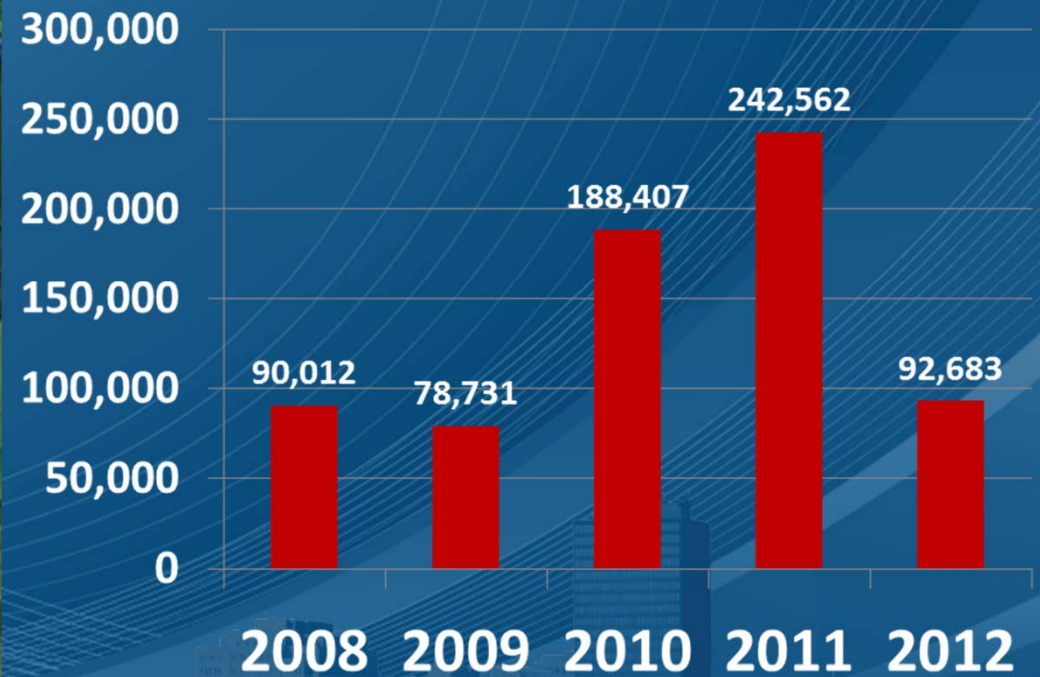
Class B office average rental rate per SF 2009-2012





# Sublease Factor

## Sublease SF





## State Privatization Leases

- **LA Care – Perkins Rowe - 30,000 +/- SF**
- **Magellan – Perkins Rowe - 30,000 +/- SF**
- **Centene – XII United Plaza - 32,000 +/- SF**
- **ACS/Xerox – Bon Carre – 11,000 +/- SF**
- **ACS/Xerox – Bon Carre - 10,000 +/- SF**
- **ACS/Xerox – 2900 Westfork – 10,000 +/- SF**
- **CNSI – Fairfax Building – 13,000 +/- SF**





# 2011 Market Trends – Forecast

What Office Trends Team Reported in 2011

- ❖ Sublease space becoming more prevalent and is a big factor in driving rental rates down
- ❖ Shift in tenant expectations:
  - Flexibility in lease terms
  - Lease provisions regarding bankruptcy and lender involvement
  - Efficiency of space - less office intensive and more cubicles
- ❖ Landlords becoming more competitive in rates and incentives
- ❖ Government related businesses seem to be most active in market
- ❖ Dated spaces will need updating to attract tenants





# Pulse of the Office Market

## What Baton Rouge Area Brokers Are Reporting in 2012

- ❖ Deals are still progressing very slowly
  - Tenants being cautious due to market uncertainty
  - Lease transactions dragging out due to 'Corporate Services' model
  
- ❖ Tenant Representatives are seeking heavy concessions and lease flexibility
  - Long form Request for Proposals (RFP)
  - Negotiating lease language upfront
  
- ❖ Older Class B spaces are sitting on the market longer
  - May require updating prior to leasing
  - Landlord must get aggressive to lease these spaces
  
- ❖ Demand is for large open, efficient floor plans
  - Cubicles are the new normal...even for executives
  - Office intensive spaces are getting less looks and have extended downtimes



## India Call Center





# Pulse of the Office Market

## What Baton Rouge Area Brokers Are Reporting in 2012

- ❖ More Activity on spaces less than 2,500 SF and larger than 10,000 SF
  - Mid-range spaces may need to be subdivided
  - Very few large blocks remain on market
  
- ❖ Sales activity has been extremely slow
  - Banks aggressively seeking owner-occupant loans , but skeptical of investment deals
  - Very few good investment deals seen on the market
  
- ❖ Older Class B spaces are sitting on the market longer
  - May require updating prior to leasing
  - Landlord must get aggressive to lease these spaces



## Forecast for Commercial Office Space for 2012 – “Milton Says”



- Look for continued demand for open cubicle environments
- State privatization tenants will be a strong factor in the market for office space
- Older spaces may require pre-leasing face-lifts to attract interest
- Slow growth in engineering sector will help to improve market conditions
- Market occupancy will rise to 87% by 2013

