

# 2011 Baton Rouge Office Market Overview

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Presented by:

Branon W. Pesnell, CCIM, SIOR – Beau Box Commercial

Gary Black – Wampold Companies

Jonann Stutzman – JTS Management

Drew Pearson, CCIM – NAI Latter & Blum

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## SIOR Commercial Real Estate Index Fourth Quarter 2010 Results

### National Trends

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

- 360 SIOR market experts commented on Fourth Quarter 2010 conditions revealing an SIOR Index of 50.7 which is the highest index total since Fall 2008
- There have been five straight quarters of improvement in both the office and industrial sectors, with office rising 7.3 points to 50.4
- The SIOR index indicates we have not experienced equilibrium in the market since third quarter 2007.
- 78% of SIOR experts expect significant improvement in the market for 2011
- Development activity is non-existent, as 98% of SIOR experts report levels are lower than normal and 84% say there is no new commercial development in their market



## SIOR Commercial Real Estate Index Fourth Quarter 2010 Results

### Regional Breakdown (100 point basis)

- West (43.2 up from 36.8) is experiencing the lowest of all leasing activity. Vacancy rates are up but remain the lowest in the country. Sublease space is approaching normal, but remains high compared to other markets. The West is also experiencing deep levels of concessions, and development is close to zero.
- South (52.5 up from 47.0) is seeing improvements in most areas. However, SIORs in the South are experiencing development activity at a near zero level. They seem to be stabilizing in areas like sublease space and leasing activity. They also have the strongest outlook for the next three months
- Northeast (57.3 up from 45.7) is seeing great improvements in many areas, and had the largest point increase (11.6). Leasing activity is posting the strongest increase across all markets. Vacancy rates are approaching historic averages. Sublease space is also reaching normal levels.
- Mid-West (52.7 up from 42.0) is seeing improvements in many areas. Asking rents are still low and it is a buyers market like all other areas. However normal levels of sublease space are becoming a closer reality.



## **Baton Rouge Market: 2011 Executive Summary**

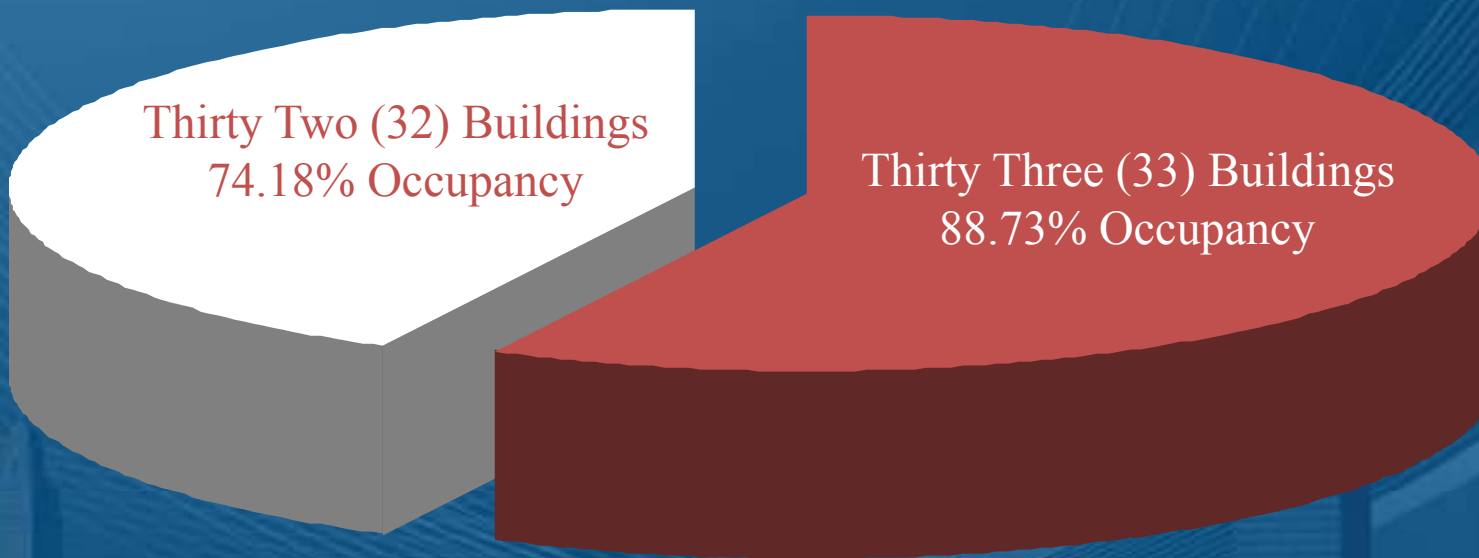
- **Effects of the national recession continued to impact Baton Rouge, coupled with the slowing in oil/gas industry resulting from the BP oil disaster**
- **Occupancy levels at lowest point since 2003**
- **Large amount of sublease space on the market (254,000 +/- sq.ft.)**
- **Office building sales were few and far between due to financing issues**
- **Landlords are becoming more competitive, quoted rental rates decreasing**
- **Tenants renewing but downsizing in the face of economic uncertainty**
- **Majority of activity seems to be coming from tenants bidding on proposals to privatize state government programs**



# Baton Rouge Office Market

March 2011

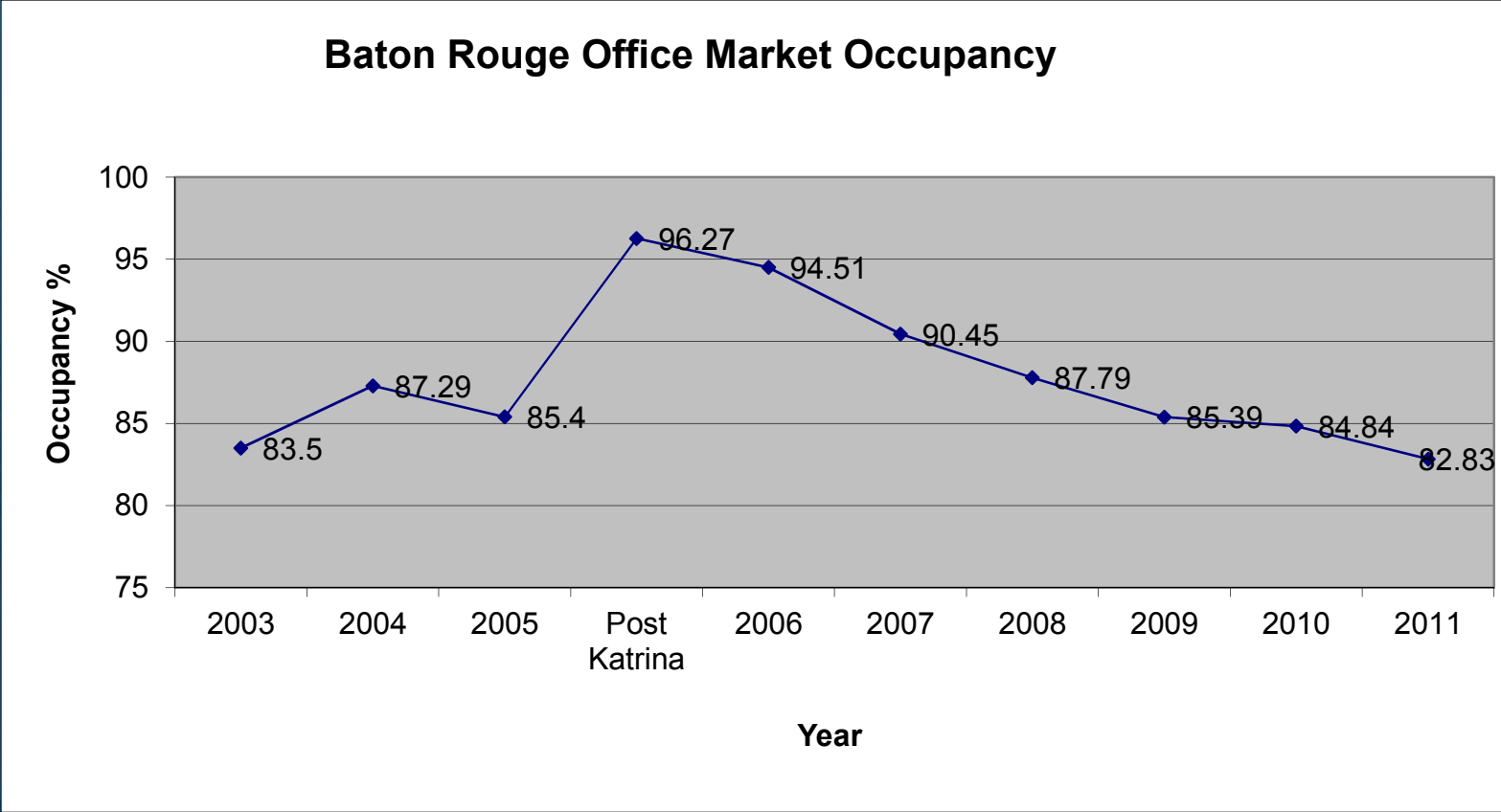
Class B – 2,662,715 Total Square Feet



Class A – 3,905,531 Total Square Feet



# Baton Rouge Office Market Historical Occupancy



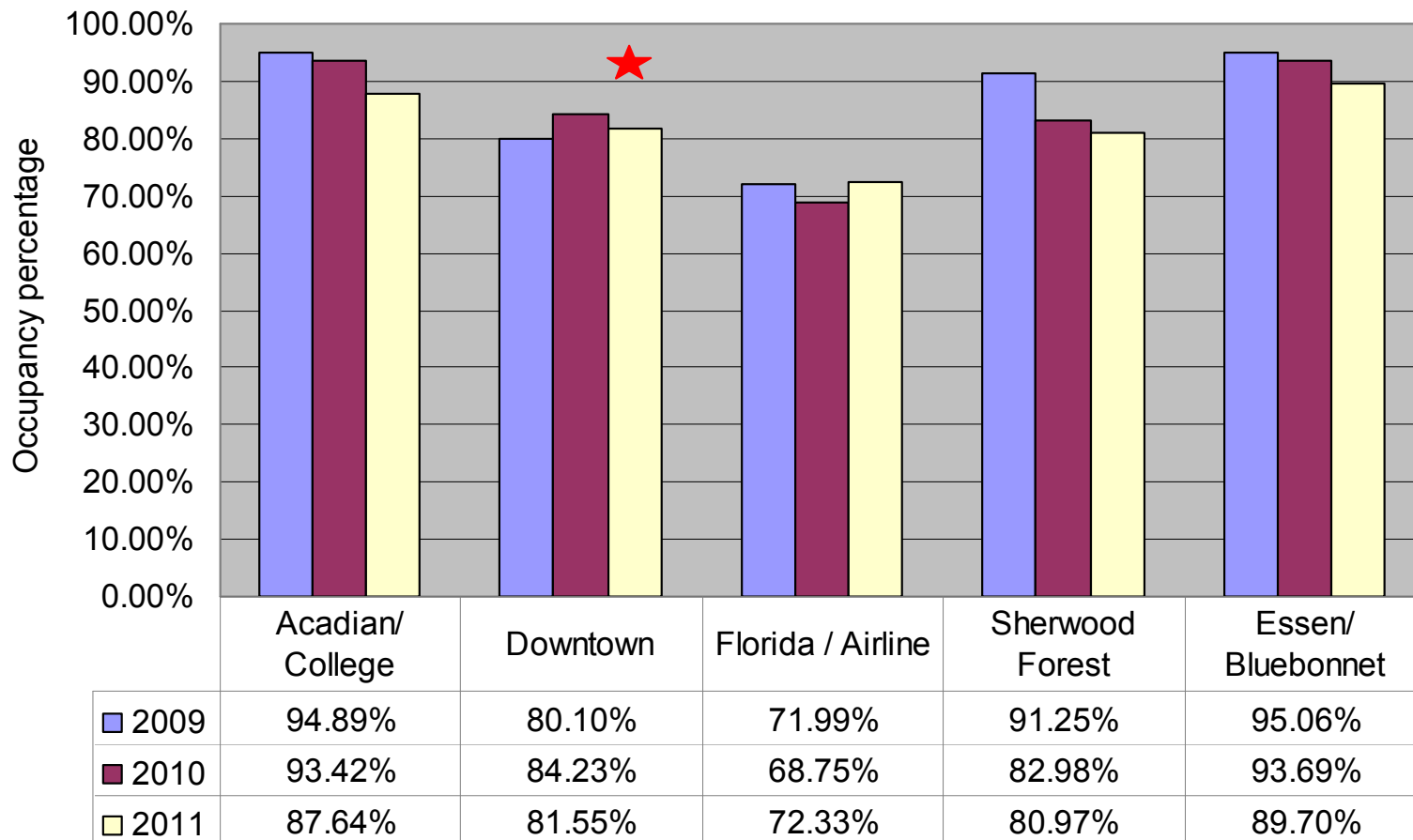


# Baton Rouge Office Market

## A & B Occupancy – March 2011

★ = both Kean Miller leases included in this %

### Class A & B Office Occupancy

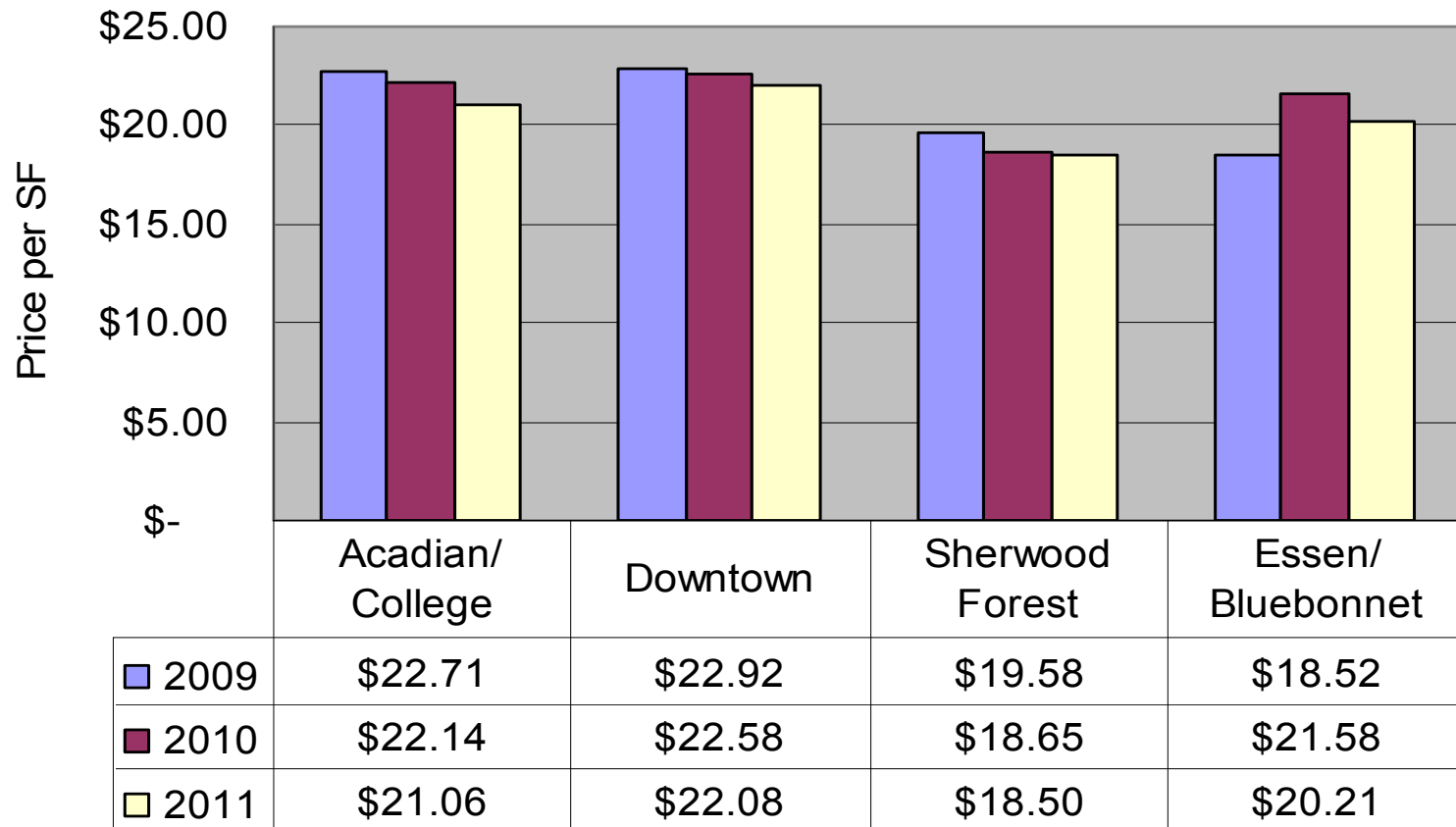




# Baton Rouge Office Market

## Class A Rental Rates - March 2011

Class A office average rental rate per SF 2009-2011



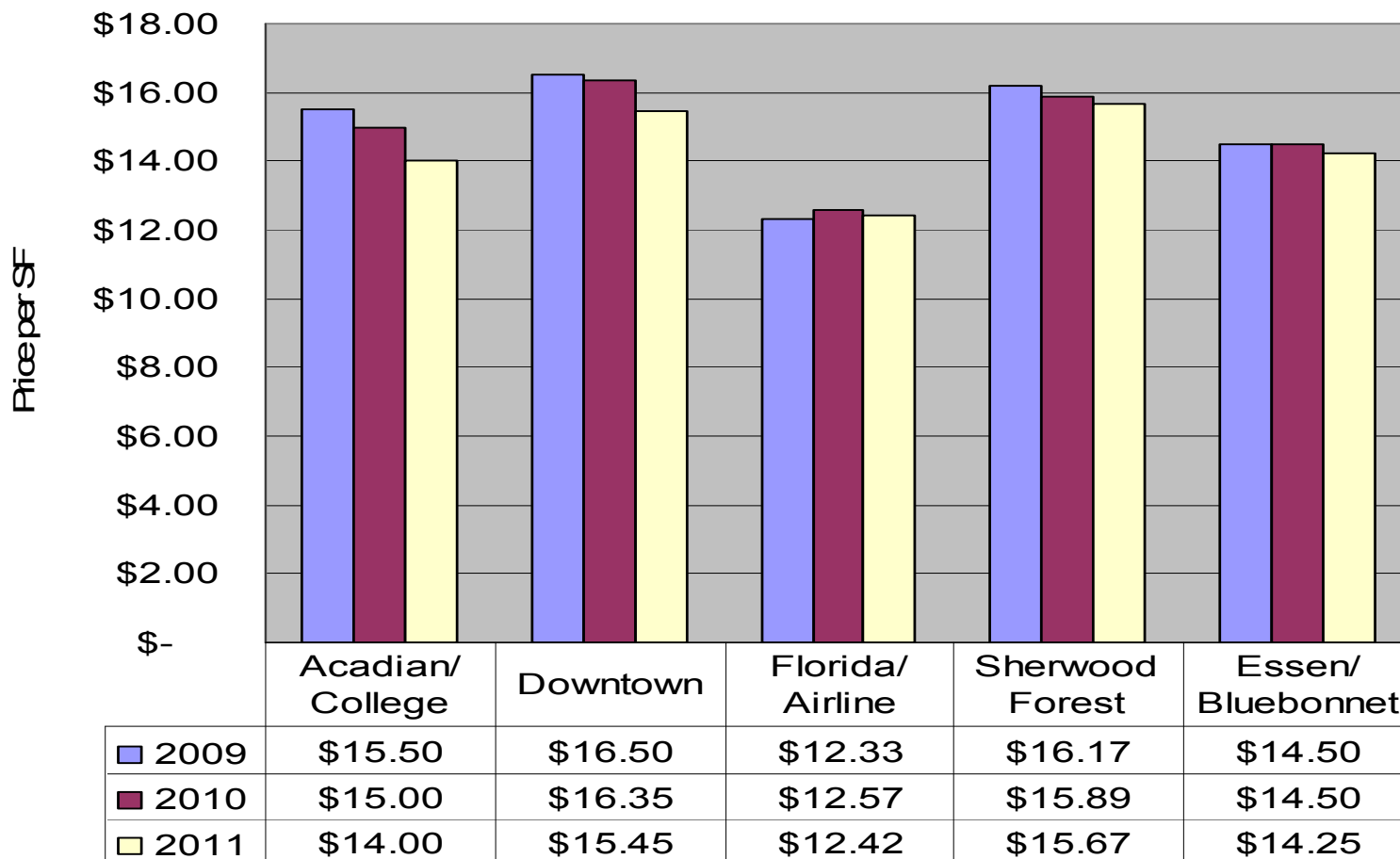




# Baton Rouge Office Market

## Class B Rental Rates - March 2011

Class B office average rental rate per SF 2009-2011





## **Downtown Office Market March 2011**

- **Current Class A occupancy rate of 89.54%**
- **Average Class A rental rate of \$22.08 psf/year**
- **Current Class B occupancy rate of 67.44%**
- **Current Class B rental rate of \$15.45 psf/year**





## **Downtown Office Market Factors**

### **City Plaza II – Lands the big one**

- **Kean Miller signs lease (75,000+/- sq.ft.)**

### **City Plaza I – Slowly leasing up**

- **Butler Snow (5,000 sq.ft.)**

### **Large block vacancies**

**One American Place – 90,000 +/- SF (Kean Miller)**

**South Tower - 50,000 +/- SF (Chase/Albermarle)**

### **Completion of the new court house has provided a major upgrade to downtown**

### **Class B - Vacancies**

- **Commerce Building (160,000 sq.ft.) remains vacant**
- **Renaissance West (50,000 sq.ft.)**

### **Notable Sales**

- **339 Florida to the Mentorship Academy**
- **324 Lafayette St and 406 North 4<sup>th</sup> Street sold for redevelopment**



## Acadian/College Office Market March 2011

- **Current Class A occupancy rate of 90.82%**
- **Average Class A rental rate of \$21.06 psf/year**
- **Current Class B occupancy rate of 69.03%**
- **Current Class B rental rate of \$14.00 psf/year.**





## Acadian/College Office Market Factors

- **Various move-outs in several buildings increase vacancy rates**
- **Area Class A space still in attracts interest**
- **Class A & B rental rates drop and incentives rise in order to attract tenants**
- **Lamar occupies the former Chase Operations Center**
- **Vacancy has increased but demand remains high in this submarket due to location**



## **Sherwood Office Market March 2011**

- **Current Class A occupancy rate of 73.42%.**
- **Average Class A rental rate is \$18.50 psf/year.**
- **Current Class B occupancy rate of 84.29%.**
- **Current Class B asking rate is \$15.67 psf/year.**





## Sherwood Office Market Factors

- Large vacancies
  - 2900 Westfork – 50,000 +/- sq.ft.
  - 11000 Mead Road – 22,000 +/- sq.ft.
- The area seems to have stabilized from last year's decline
- Recent facelifts occurring in the last 6-9 months have encouraged tenants to consider possible relocation
- Traffic continues to improve at I-12 and the Sherwood/Coursey intersection



## **Airline/Florida Office Market March 2011**

- **Current Class B occupancy rate of 72.33%.**
- **Current Class B asking rate is \$12.42 psf/year**
- **No Class A buildings in this market segment**







## Airline/Florida Office Market Factors

### Large Area Vacancies

- 10255 Florida (90,000 +/- sq.ft.) – Still vacant
- 1900 Lobdell (53,000 +/- sq.ft.) – remains 66% vacant

### Noteworthy Transactions

- 8282 Goodwood (82,000 +/- sq.ft.) sold to an owner occupant
- Leasing at Bon Carre remains the main source of activity in this area
- 1771 Lobdell (110,000 +/- sq.ft.) sold to a local church



## Essen/Bluebonnet Office Market March 2011

- **Current Class A occupancy rate of 89.62%.**
- **Average Class A asking rate is \$20.21 psf/year**
- **Current Class B occupancy rate of 90.71%**
- **Average Class B asking rate is \$14.25 psf/year**





## **Essen/Bluebonnet Office Market Factors**

- **Large blocks of Sublease space on market**
  - **United Plaza II (67,000 +/- sq.ft.)**
  - **United Plaza IV (7,000 +/- sq.ft.)**
  - **Perkins Rowe (60,000+/- sq.ft.)**
- **Landlords have continued to try and hold rental rates strong in this area**
- **Demand in this submarket remains strong due to its centralized location, interstate access, and quality of buildings**



## Market Trends

- **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**



## Forecast 2011

- **Expect a rocky start to 2011 as the continued tightening of credit will limit expansion**
- **Landlords will need to offer higher improvement allowances or spend money to retrofit office intensive space to open floor plans**
- **We hope to see “shoppers” become “buyers” as positive economic news comes to light**
- **Tenants will continue to hold the negotiating power as vacancies are at the highest level since 2000.**
- **Keep an eye on the FASB and IASB accounting changes and how this impacts the corporate balance sheet**