

POINTS OF INTEREST FOR OFFICE SPACE

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1. Trend from Flat Rental Rates toward Stepped Rental Rates.

We have seen a definite trend in stepped rental rates. Most of our new leases have been with companies that are expanding and, in a lot of cases, are taking on more space than they need. They are allowing for some growth in their lease space. Also, most of these companies have seen their business grow due to strength of the Baton Rouge economy, and they are anticipating that growth to continue. By agreeing to a lower rent in year one of the lease and by having the lease rate step up in years 2 through 5, they are hoping that the increased business will more than pay for the increased rent. In addition, they get the benefit of the lowest rental rate in year one when they need it. The one exception is State or government leases where most these leases tend to be based on flat rates due to structure of the state budgets. Also, landlords like the stepped rents as it builds in increased annual cash flow for their investors and allows for their renewals to be negotiated off of the highest rental rate of the previous term.

--Grady Brame, Stirling Properties

2. Changes in BOMA Standards of Measuring Common Area Square Footage.

In 1996, BOMA rewrote the standard for floor measurements in office buildings (ANSI Z65.1) to provide a more equitable means to prorate the large foyer and lobby of many of today's office buildings. The terms "Net Rentable Area" and "Net Usable Area" have been replaced with "Rentable Area" and "Usable Area" and still have the same meaning. The real change, however, is in the way the common areas are calculated. Common Area has been segregated into BUILDING COMMON AREA and FLOOR COMMON AREA. Building common areas are those spaces, which benefit all tenants in the building (i.e., first floor lobby, fire command room, central plant, elevator machine room). Floor common areas are those spaces, which benefit only the tenants of that particular floor (i.e., restroom, air handler room, corridor, cleaning closet). The effect of the rewritten standard is that the BOMA standard of measurement expresses the common areas on a floor-by-floor basis and not for the entire building. Today, the quoted lease rate per square foot reflects BOMA's new measurement calculations.

--Norm Bacon, Essen Center

3. 1999 was a Year of Tremendous Absorption for Baton Rouge.

We have seen tremendous absorption over the past year. Baton Rouge has absorbed almost 50,000 square feet in One United Plaza and over 20,000 square feet in Two United Plaza. Most of the remaining space in United Plaza in which Stirling Properties is involved has remained at near 100% leased for all of the past year. Some of these buildings are owner-occupied, and the owners are taking backspace from their tenants when their leases expire to accommodate their own expansions, which allows for these tenants to relocate to other buildings. Since there have been very few, if any, new Class "A" office buildings built in Baton Rouge in the last several years, the expansion of these companies is absorbing the existing Class "A" space.

--Grady Brame, Stirling Properties

4. Class "A" Building Construction Coming?

We have heard a great deal about new projects. The existing Class "A" buildings are nearing full occupancy. With these buildings filling up, there will be a need for some new Class "A" office space. The one issue I see is that new construction costs have risen dramatically with the growth in the economy. Rental rates will need to be \$20 per square foot and up to support new construction. Our opinion is that \$20 per square foot is at the top of the market, and I would be concerned as to whether there will be enough demand at the \$20 per square foot rental level. However, if Baton Rouge continues with its strong growth over the next few years, the demand will likely be there.

--Grady Brame, Stirling Properties

5. Impact of United Companies Downsizing.

The United downsizing resulted in 147,000 feet of class "A" office space hitting the market. All but 20,000 feet of this space has been leased. United's plans for a 200,000-foot office building on their Eleven United Building site were canceled and the site was sold to Wampold Development. An unknown is the 153,000 feet that United still occupies in their Twelve United Building.

--Joe Goudeau, Stirling Properties

6. Impact of Projects such as The Bon Carre Mall.

The Bon Carre? Mall has been one of the more exciting projects in Baton Rouge. It has already attracted large service/call center tenants and can offer office space as well as retail. New tenants relocating to Baton Rouge are attracted to this project with its ample parking and services. In the past, some of these tenants would be looking at existing office buildings. One service center has relocated from United Plaza and there is a possibility of the relocation of two other tenants currently occupying over 53,000 feet.

--Joe Goudeau, Stirling Properties

7. Effect of Instant Communications (Computer Technology) on the Leasing Market.

Information flow is vital to the decision making process in any market. Real estate transactions, much like other market activity, have historically incurred technical inefficiencies because of the lag time that existed in information flow. The advent of the Internet and instantaneous resources like e-mail have minimized the time it takes for participants to enter the market as well as assess and correct any market discrepancies. Transferring information in a timely manner creates consistency among the valuation of comparable assets. Having as much current information prior to the physical exchange of real estate or commencement of a lease greatly insures fair market considerations.

Further, websites such as LoopNet.com have revolutionized the immediacy and effectiveness of network marketing. It is reasonable to anticipate further enhancements in such technologies. Expanding the technological frontier for real estate creates an environment beneficial to all parties in a transaction. .

--Jonann Stutzman and William S. McAnelly, JTS Interests

8. Trend from Owner-Occupied Space to Investor Ownership.

One of the biggest events over the last few years that affected the downtown office market during 1999 was the acquisition by Bank One of Premier Bank and CNB. This resulted in the divestiture of the two banks' portfolios including the North Tower of the Premier Bank property and the CNB building. The end result of those acquisitions was a shift of approximately 120,000 square feet from owner-occupied space to investor-owned space. To date, approximately 50,000 square feet have been filled, and rental rates have remained at the level they were in 1998. The United Companies properties went through a similar shift.

--Rob Hebert, Latter and Blum

9. Dramatic Changes in the Commercial Lending Industry.

Banking mergers and consolidations, changing regulations, and rapidly evolving technology have resulted in dramatic changes in the commercial mortgage lending industry. We are finding that lenders are searching for more standardization of loan analysis and property valuation of commercial mortgage loans. Investors and other borrowers are demanding speed and low loan closing costs. To be competitive, bankers require faster, less expensive methods of qualifying potential borrowers for loans, as well as properties for collateral. In addition, lenders are looking for streamlining, or bundling mortgage services, from a single vendor to provide them with mortgage documents, flood, title, appraisal and other property services.

FNMA brought about standardization of residential loan processing. Commercial mortgage processing is following along the same line that has occurred in the residential market.

--Dianne Bankston, Advantage Property Services, Inc.

10. Impact of New Construction of State-Owned Office Facilities

The recent bank mergers and the beginning of the construction of the state owned office facilities will have a significant impact on downtown Class A office facilities.

Between now and the middle of 2004, the state has plans to move various state agencies out of private and/or investment-owned properties into state-owned properties. In the aggregate, the amount of space becoming available due to this consolidation will total approximately 100,000 square feet of Class A office space.

Depending upon absorption rates, the economy in general and other factors, this could significantly impact announced plans for new construction and lease rates for new and existing properties over the next decade.

--Larry Dietz, Sealy & Falgoust