

**TRENDS 2004**  
**OFFICE MARKET COUNCIL**  
**EXECUTIVE SUMMARY**  
April 29, 2004

## ***Executive Overview***

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The data contained in this report was compiled by phone and fax surveys collected by Louisiana State University's Real Estate Research Institute in November and December of 2003. Additionally, the Trends Office Council conducted their own phone and fax surveys, face-to-face interviews with building owners/managers, and discussions with local office experts and brokers in January and February of 2004 for the purposes of comparison and to determine market trends.

Since the LSU survey contains historical data, references to absorption and changes in vacancy or rental rates were derived from the LSU data. Discussions of market trends are based on the comparison of the LSU data with the results of the more recent surveys conducted by the Trends Office Council.

Special thanks is given to the LSU Real Estate Research Institute and their commitment to this survey each year. Additionally, we would like to thank the following individuals who offered their expertise and comments on the individual market areas.

<b>Downtown</b>	<b>Branon W. Pesnell, CCIM</b>	<b>NAI Latter &amp; Blum, Inc.</b>
<b>Florida/Airline</b>	<b>H. Ben Johnson, CCIM, SIOR</b>	<b>NAI Latter &amp; Blum, Inc.</b>
<b>Acadian/College</b>	<b>Jonann Stutzman</b>	<b>JTS Interest</b>
<b>Essen/Bluebonnet</b>	<b>Ben Stalter</b>	<b>Stirling Properties</b>
<b>Sherwood Forest</b>	<b>Beau J. Box, SIOR</b>	<b>NAI Latter &amp; Blum, Inc.</b>
<b>Suburban/Drive-Up</b>	<b>Steve Legendre</b>	<b>Sealy &amp; Falgoust</b>

Overall, the nation's recent economic downturn has translated into additional office vacancy for the Baton Rouge Market in 2003. However, the decreases in occupancy rates were minor, seeming to indicate a halt to the negative absorption. In the Fall of 2003, the overall market was 87.29% occupied, as compared with 88.45% the same time in 2002. The average rental rate in the Fall of 2003 for both Class A and Class B was \$16.24, down only \$0.04 from the 2002 average. Over 2003, landlords were offering more concessions in tenant improvement expenditures and rent abatement in order to maintain rent levels.

The average rental rate for the Class A market actually increased slightly in the Fall of 2003 to \$19.14. This increase was driven mainly by the high rents being charged for new construction in the Corporate Boulevard market. Occupancy rates for the Class A market in the Fall of 2003 declined slightly to 91.75%, caused in large by increased Downtown and Acadian vacancies from State office consolidation.

The Class B market suffered increasing vacancy in 2003. Occupancy rates fell to 79.74% in the Fall of 2003 down over 2.5% from 2002. The decrease was fueled mainly by the construction of more Suburban/Drive Up space and State office consolidation. The average rental rate for the Class B market \$14.06 down slightly from \$14.22 in 2002.

While Baton Rouge, enjoyed occupancy rates in the 90% ranges for both Class A and B in previous years, 2000-2003 has shown a trend of Occupancy rates hovering in upper eighty percent range. Market experts indicate that large blocks of space are being offered at discounts to attract tenants, while smaller spaces are being leased by providing rent incentives, stepped leases, and higher tenant improvement allowances to reduce the tenant's total lease cost.

## ***Downtown Market Overview***

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### **I. Trends**

The continued consolidation of Louisiana state government offices over the past year has significantly impacted the downtown Baton Rouge office market. The moving of state agencies out of private-sector buildings into state-owned properties has created considerable office vacancy. While most of the movement of state agencies has come from Class B and C buildings, the Class A market has not been immune.

We believe that the downtown market will not significantly soften any further. However, absorption of existing vacancies will be slow over the next 12-18 months. The need for many private companies to be in close proximity of state offices should be a driving force for downtown office absorption over the next few years. Another positive force affecting the downtown market is the development of more downtown residential units, and with it, the influx of more retail and service-oriented tenants in to the area.

Smaller local users (2,500 sq. ft. to 6,000 sq. ft.) will be the predominant tenants in transition over this period of time. Demand for these tenants will be driven by the improvement of downtown amenities and services. As economic conditions improve we look for larger, regional corporate tenants to be more of a factor in the market.

## **II. Average Rental Rates**

The average rental rate per square foot for Class A space in the downtown office market is \$20.08. However, new leases are being offered in the \$18.00 to \$19.00 per square foot range to attract tenants.

The average rental rate per square foot for Class B space in the downtown office market is \$14.18 per square foot, with discounts being offered due to recent rise in vacancies.

## **III. Occupancy Rates**

The occupancy rate for Class A space in the downtown office market is approximately 88.04%, reflecting 83,590 square feet vacant in the buildings surveyed. Net absorption for the period of October 2002 to October 2003 was negative 21,966 square feet. It should be noted, however, that several large blocks of sublease space are currently available that are not accounted for in the survey.

The occupancy rate for Class B space in the downtown office market is approximately 82.86% reflecting 57,426 square feet vacant. This segment has been more adversely affected by the consolidation of state government. Net absorption since the Fall of 2002 has been negative 23,035 square feet.

## **IV. Obstacles**

The main obstacle to leasing in the downtown market continues to be parking. The additional cost of providing parking for employees has caused several tenants to maintain their offices in suburban locations. However, with the addition of two new state-owned parking garages and planned future expansion of public parking, it is anticipated that parking will become less of an issue in the near term.

## **V. Incentives:**

The revitalization of downtown spurred by on-going and planned construction will create a flurry of activity. Development of more downtown residential units and the influx of more retail and service-oriented businesses should boost downtown demand.

# ***Florida/Airline Market Overview***

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## **I. Trends**

Consolidation of Louisiana state government offices has had the most significant affect on this market segment. Vacancy rates have continued to rise as state agencies relocate to the downtown market into state-owned properties. Since this segment contains no Class A space, Class B and C buildings have been the victims.

With the recent change in the State's highest office, we do not anticipate any further new construction of State office buildings in the downtown market. However, the damage has been done. This segment of the market will continue to soften as the area buildings age and demand continues to rise in the southeastern areas of Baton Rouge. Absorption for the market will be minimal and possibly negative with the exception of the revitalized Bon Carre Business & Technology Park. It should be noted, however, that occupancy and rental rates for Bon Carre were excluded from this market survey.

## **II. Average Rental Rates**

The average rental rate per square foot for Class B space in the Florida/Airline office market is \$12.19. However, it is believed that deep discounts would be offered to attract tenants.

There are no Class A buildings included in the survey for the Florida/Airline market.

## **III. Occupancy Rates**

The occupancy rate for Class B space in the Florida/Airline office market is approximately 69.45%, reflecting 62,520 square feet vacant in the buildings surveyed. Net absorption for the period of Fall 2002 to Fall 2003 was negative 11,395 square feet.

## **IV. Obstacles**

The main obstacle to leasing in the Florida/Airline market has been the age of the buildings located in the area. Less expensive suburban space and Class C space, with decent amenities, in other market areas has been hard to overcome. Additionally, the continued growth of the Baton Rouge market to the southeast has disconnected this area, with the exception of its ease of access to downtown.

## **V. Incentives:**

The superb efforts of the Mid-City Redevelopment Alliance, Bon Carre Business and Technology Park, and Baton Rouge Community college are showing tremendous promise for the area. The development of Renaissance Park (former Godchaux's) should create a continuous link to the downtown area further revalorizing the Florida corridor.

# ***Acadian/College/Corporate Market Overview***

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## **I. Trends**

Class A office rentals in the Acadian/College/Corporate corridor have remained very strong over the past year, with certain of the corridor's buildings attracting some of the highest effective rentals in the City.

Class B & C office occupancies in the Acadian/College/Corporate corridor have remained flat, with moderate softening noted in attainable rentals. Gradual absorption of much of the available space is expected over the next 2-3 years, as the substantial retail and multifamily development underway in the immediate area is expected to bolster demand for office users (attracted by the availability and convenience of services and facilities).

## **II. Average Rental Rates**

The average rental rate per square foot for Class A space in the Acadian/College office market is \$20.13. However, it should be noted that new construction in the Corporate Boulevard corridor has been demanding even higher rents.

The average rental rate per square foot for Class B space in the Acadian/College office market is \$15.00 per square foot.

## **III. Occupancy Rates**

The occupancy rate for Class A space in the Acadian/College office market is approximately 94.93%, reflecting 21,518 square feet vacant in the buildings surveyed. Net absorption for the period of Fall 2002 to Fall 2003 was 35,850 square feet.

The occupancy rate for Class B space in the Acadian/College office market is approximately 72.82%, reflecting 52,066 square feet vacant in the buildings surveyed. Net absorption since the Fall of 2002 was flat.

## **IV. Obstacles**

With the strong developmental momentum in the corridor, an increase in automotive traffic is inevitable. Recent improvements in the roadway infrastructure should serve to alleviate the impact.

## **V. Incentives:**

The broad assortment of eateries, entertainment venues, fine dining, hotels, shopping, banking, services, etc., in the Acadian/College/Corporate corridor will continue to drive demand for office space. Several large companies (and, more so, their employees) have

been attracted by the variety of attractions in the corridor. Relative to the high-end spaces in the CBD, the ample surface parking available to most of the office spaces in the Acadian/College/Corporate corridor remains marketable.

## ***Essen/Bluebonnet Market Overview***

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### **I. Trends**

The Essen/Bluebonnet area recorded relatively low vacancies in 2003. However the leasing market has been relatively flat in the United Plaza office park, with few new tenants moving into United Plaza. Activity has been fueled by existing tenants expanding and renewing. Traffic issues are the main obstacles for the area, but the planned road construction on Essen should alleviate most traffic concerns. There is a tremendous State (municipal) presence in the United Plaza office park which has helped with stability. The large number of owner occupants in United Plaza and on Bluebonnet is also helping to maintain occupancy.

### **II. Average Rental Rates**

The average rental rate per square foot for Class A space in the Essen/Bluebonnet office market is \$18.54.

There are no Class B buildings for the Essen/Bluebonnet market area included in the survey.

### **III. Occupancy Rates**

The occupancy rate for Class A space in the Essen/Bluebonnet office market is approximately 92.47%, reflecting 73,638 square feet vacant in the buildings surveyed. Net absorption for the period of October 2002 to October 2003 was approximately 22,339 square feet.

### **IV. Obstacles**

Traffic concerns caused by build ups on Bluebonnet and Essen have been the main obstacle to leasing in the area. Also, several tenants are opting to purchase new office space in the Essen/Bluebonnet corridor because of the low interest rates.

### **V. Incentives:**

The area's easy access to I-12 and I-10 and its close proximity to the hospital systems and all areas of Baton Rouge will continue to push demand for the area. Planned construction enhancement to Essen should alleviate traffic concerns.

# ***Sherwood Forest Market Overview***

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## **I. Trends**

The Sherwood Forest market in the past has been a high demand area for Baton Rouge. Demand in the area was fueled by easy access to the Interstate systems and the areas close proximity to retail and residential development. However, construction of more and more Suburban/Drive-Up office space in the Bluebonnet corridor has been a driving force in this market segment by drawing the relocation of traditional Class A and Class B tenants. Absorption for this market area has been flat over the past year. Leasing has been slow and some landlords are offering commission rates as high as eight (8%) percent to entice brokers to bring their clients.

With Sherwood Forest seeing exponential growth from the late 1980's through the late 1990's, some brokers and landlords are concerned by the stagnant growth. This has led to a trend of huge incentives for new leases including free rent and larger tenant improvement allowances. A trend that will most likely continue in the short term.

## **II. Average Rental Rates**

The average rental rate per square foot for Class A space in the Sherwood Forest office market is \$17.75.

The average rental rate per square foot for Class B space in the downtown office market is \$14.29 per square foot, with deep discounts being offered due to recent vacancies.

## **III. Occupancy Rates**

The occupancy rate for Class A space in the Sherwood Forest office market is approximately 94.80%, reflecting 9000 square feet vacant in the buildings surveyed. Net absorption for the period of October 2002 to October 2003 was flat.

The occupancy rate for Class B space in the Sherwood Forest office market is approximately 84.44% reflecting 66,666 square feet vacant. Net absorption since the Fall of 2002 has been approximately 584 square feet.

## **IV. Obstacles**

The main obstacle to leasing in the Sherwood Forest market continues to be the construction of new Suburban/Drive-Up office space in the Bluebonnet, Perkins, and Highland areas. These office buildings with high quality finishes and a residential appeal have consistently lured small privately owned companies and some regional and national tenants away from the Sherwood Forest Area

## **V. Incentives:**

The same amenities that created strong demand for the Sherwood Area in years past continue to be a driving force for tenants moving into the area. The ease of access to the interstate systems, close proximity to growth areas, and nearby restaurant and retail establishments will be the basis for demand in the area.

# ***Suburban Drive-Up Overview***

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## **I. Trends**

The continued construction of more and more new Suburban Drive-Up office space in the Baton Rouge market has been an amazing trend. An abundant amount of new Suburban space has been constructed in the Baton Rouge market since January of 2000. This market class has traditionally been attractive to smaller firms. However, even some national and regional companies have elected to lease these types of properties.

With a quasi residential look and appeal, this segment of the market has often been called Residential Commercial Construction. Most of the space is single story with quality interior and exterior finishes. Given the quality of the space, this property type has become competition for Class B and some Class A space.

New construction of this property type has dominated the Bluebonnet Boulevard corridor between Perkins and Highland, segments of Perkins Road, and to some extent the Sherwood Forest area. Additionally, completion of the Bluebonnet Extension has created another market area, which should be fully constructed by the end of 2004.

With the flurry of new construction, the question for this market segment is when and if it is becoming overbuilt. A question that can only be answered by the market itself.

While no formal survey of this market class was performed due to time constraints and the sheer number of landlords, owner/occupants, buildings, and locations, phone surveys of the developers and/or agents representing several of the more recently constructed projects were performed in March of 2004.

## **II. Average Rental Rates**

Based on our discussions with local brokers, owners, and developers of this property type, the average rental rate per square foot for Suburban/Drive-Up space in the overall market is between \$15.00 and \$17.00 per square foot.

### **III. Occupancy Rates**

The occupancy rate for the Suburban/Drive-Up market is far more difficult to ascertain due to the sheer volume of space on the market and the various owners and landlords. However, it is estimated through conversations with local brokers familiar with the market that new construction (properties built between 2000 and 2004) that occupancy rates are between 93% and 95%. However, with new construction continually ongoing, this is an ever changing estimation.

## ***Forecast***

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The Baton Rouge Office market made the Society of Industrial and Office Realtors' Top Ten list of office markets in the nation with the lowest vacancy rates in early 2003. Baton Rouge, however, has since fallen off that list as of 2004. With vacancy rates slowly rising over the last three to four years, landlord's have been offering concession in the form of rent abatement, stepped leases, and higher tenant improvement allowances to bring new tenants and hold on to existing one's. The slowdown in the national economy has had its effect on Baton Rouge and our Tenant base. However, as signs of economic improvement continue, so will our office market.

Absorption over the short term will continue to be slow, with the predominant tenants being small local or regional users. As time goes by we should see an increase in occupancy rates as more national corporations halt their downsizing and begin to re-hire. Rental rates have remained largely unchanged over the past few years, with the exception of rates being demanded by new construction. This trend should continue into the foreseeable future as incentives are offered in other forms as discussed above. Landlord's will continue to offer incentives and concessions to lure tenants during the recovery period.