

TRENDS 2005
OFFICE MARKET COUNCIL
EXECUTIVE SUMMARY
April 28, 2005

Executive Overview

The data contained in this report was compiled by phone and fax surveys collected by students of the Louisiana State University's Real Estate Research Institute in the Winter/Spring 2005. The data set for 2005 was changed from previous years. Several aged buildings, that no longer met the building class criteria, were dropped from the survey and buildings that were previously owner occupied but now for lease have been included. Since the dataset has been amended, there are no references to absorption. Discussions of market trends are based on the analysis of the data and by interviews of building owners and market experts which were conducted by the Trends Office Council.

Special thanks are given to the LSU Real Estate Research Institute and their commitment to this survey each year. Additionally, we would like to thank the following students who offered their time in conducting the market surveys.

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Overall, the Baton Rouge office market improved in 2004. Although in small increments, there was considerable absorption of existing vacancies. However, there were a few owner occupied buildings that became partially or totally vacant in 2004. These "new" vacancies and the addition of Renaissance Park to the Class B market actually brought down the market occupancy rate to 85.46% from 87.29% in the Fall of 2003.

In 2004, leasing activity increased driven mainly by local tenant relocations and a few small to mid-sized companies moving into the Baton Rouge area. Overall, the Baton Rouge market has performed much better than markets in the West South Central United States. A stronger national and local economy is expected to create job growth by approximately 2,500 employees per year over the next two years, which should fuel demand for office space. However, absorption of the existing vacancies will continue to be in small increments. As economic conditions improve, we look for larger, regional corporate tenants to be more of a factor in the market.

Downtown Market Overview

I. Trends

The consolidation of Louisiana state government offices over the past several years seems to have stopped. However, its impact has been significant on the downtown Baton Rouge office market. The considerable office vacancies created by these relocations has pushed rental rates down in this market segment.

The need for private companies to be in close proximity of state offices should be the continued driving force for downtown office absorption over the next few years. The ongoing Downtown revitalization will also fuel demand.

The Dean Commerce Building and the Hibernia Bank Building were added to the survey for this market segment due to the anticipated relocation of state agencies, which will create additional vacancy.

II. Average Rental Rates

The average rental rate per square foot for Class A space in the downtown office market is \$18.75. 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 \$13.26 per square foot, with discounts being offered due to recent rise in vacancies. The average rental rate for Class B, excluding the attractive \$8.95 per square foot offered at Renaissance Park, is \$13.96 per square foot.

III. Occupancy Rates

The occupancy rate for Class A space in the downtown office market is approximately 91.12%, reflecting 92,147 square feet vacant in the buildings surveyed.

The occupancy rate for Class B space in the downtown office market is approximately 63.41% reflecting 292,046 square feet vacant. This segment has been more adversely affected by the consolidation of state government. The addition of Renaissance Park also added 225,000 square feet of vacancy to the market.

IV. Obstacles

As in 2004, 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.

Florida/Airline Market Overview

I. Trends

As stated in 2004, the 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.

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.

The Direct General building was added to the survey for this market segment, which will become vacant in 2006.

II. Average Rental Rates

The average rental rate per square foot for Class B space in the Florida/Airline office market is \$11.00, which reflects the discounts being 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 70.96%, reflecting 96,622 square feet vacant in the buildings surveyed. The Direct General building, which is 90,898 square feet, will be completely vacant in 2006 adding additional vacancy.

IV. Obstacles

As mentioned last year, 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.

Acadian/College/Corporate Market Overview

I. Trends

Again, the Acadian/College/Corporate corridor boasted the highest effective Class A rentals in the city and the most active Class A leasing market.

However, Class B & C office occupancies in the Acadian/College/Corporate corridor have remained low, with moderate softening noted in attainable rentals. Slow absorption of much of the available space is anticipated, 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 \$19.50. 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 \$16.00 per square foot.

III. Occupancy Rates

The occupancy rate for Class A space in the Acadian/College office market is approximately 96.08%, reflecting 16,849 square feet vacant in the buildings surveyed.

The occupancy rate for Class B space in the Acadian/College office market is approximately 77.49%, reflecting 42,693 square feet vacant in the buildings surveyed.

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.

Essen/Bluebonnet Market Overview

I. Trends

Even with huge traffic concerns, the Essen/Bluebonnet still boast relatively low vacancies. Ongoing road construction on Essen should alleviate most traffic concerns and this segment's central location will continue to fuel demand.

Louisiana Retirement Systems Building, Shaw Building, Essen Crossing and 7414 Perkins Road were added to the survey for this market segment. One Perkins Place was deleted, since the units are all individually owned.

II. Average Rental Rates

The average rental rate per square foot for Class A space in the Essen/Bluebonnet office market is \$18.52.

The average rental rate per square foot for Class B space in the Essen/Bluebonnet office market is \$13.00.

III. Occupancy Rates

The occupancy rate for Class A space in the Essen/Bluebonnet office market is approximately 95.59%, reflecting 64,584 square feet vacant in the buildings surveyed.

The occupancy rate for Class B space in the Essen/Bluebonnet office market is approximately 97.12%, reflecting 3,600 square feet vacant in the buildings surveyed.

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.

Sherwood Forest Market Overview

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 Garden Office space in the Bluebonnet corridor has been pulling tenants from this market segment. Absorption for Class A space in the area has remained flat, and absorption for Class B space has been negative.

The IBM Building, NRG Building, Security National Building, and ANMC Plaza were added to the survey for this market segment. The Oaks of Kingsbridge building was deleted.

II. Average Rental Rates

The average rental rate per square foot for Class A space in the Sherwood Forest office market is \$17.50.

The average rental rate per square foot for Class B space in the Sherwood Forest office market is \$14.86 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 94.70%, reflecting 10,028 square feet vacant in the buildings surveyed.

The occupancy rate for Class B space in the Sherwood Forest office market is approximately 76.21% reflecting 116,774 square feet vacant.

IV. Obstacles

As in 2004, 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.

Garden Office Overview

I. Trends

The construction of more and more new Garden office space continued in 2004. There seems to be no halt in construction for 2005. 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. 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. 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 certain corridors on Bluebonnet Boulevard, Perkins Road, Highland Road, Sherwood Forest, and Siegen Lane. In 2004 we attempted to answer the question of "if this segment was being overbuilt?". It was our determination that this question could only be answered by market itself. In 2004 sales and leasing for this market segment continued at a record pace seeming to indicate that demand for Garden Office space remains strong with no indications of an over supply in the market.

II. Average Rental Rates

Based on the survey of local brokers the average rental rate per square foot for Garden Office space is between \$14.00 and \$22.00 per square foot.

III. Occupancy Rates

Based on the survey of local brokers the average occupancy rate for the Garden Office market is approximately 93%. However, with new construction continually ongoing, this is an ever-changing estimation. The estimated range is between 80%- 100%.

IV. Sales Prices

Based on the survey of local brokers the average sales price per square foot for the Garden Office market is approximately \$135.00 with a range of \$115.00 to \$145.00.

Forecast

The Baton Rouge Office should continue to improve over the year. With strong competition to fill existing vacancies landlord's will be offering concessions in the form of rent abatement, stepped leases, and higher tenant improvement allowances to bring new tenants.

Absorption over the short term will continue to be slow, with the predominant tenants being small local or regional users. As mentioned in 2004, 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.