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TRENDS: Baton Rouge office space utilization hovering around 60%

By **Holly Duchmann**

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Baton Rouge's office utilization rate is hovering around 60%, higher than the 50% national average, as the pandemic-inspired hybrid work model continues to drive demand for office space.

That's according to Branon Pesnell with Corporate Realty, who was speaking at the annual TRENDS seminar this morning sponsored by the Greater Baton Rouge Association of Realtors.

Utilization rates, tracked since the pandemic, differ from traditional occupancy rates, which focus on leased spaces. Utilization measures how much office space is actually being used by workers. The occupancy rate for the local office sector is currently 79.7%.

Deals are taking longer to close, Pesnell says, and companies are averaging a 10% to 15% reduction in space when they renew their lease. Tenants are also requesting shorter, more flexible lease terms.

Pesnell warns of a looming debt crisis for the national office sector as the delinquency rate for mortgages has almost doubled from a year ago. Some $270 billion of commercial loans are coming due this year—roughly $80 billion of which are on office properties.

“A lot of small banks can’t weather this, so this is a looming crisis,” says Pesnell, noting that an increasing negative perception of offices, combined with low office rates, make loans for this space undesirable.

Development activity will also be “slow to nonexistent” this year because of high interest rates, slowing demand and increased construction costs, he says. Construction costs have increased 60% since the pandemic.

Other expenses related to the office sector have also gone up, which is putting pressure on the market. Uncontrollable operating expenses—such as taxes, insurance and utilities—are skyrocketing, according to Pesnell, while controllable operating expenses—such as repairs, maintenance and supplies—are also rising.

Inflation has caused a lot of problems in the marketplace regarding supplies and fuel costs,” Pesnell says.

Overall, despite the market challenges, Baton Rouge saw positive absorption of its office space last year, he says. The local market continues to be insulated by the strong petrochemical and state government sectors.

Pesnell predicts that the overall office market will remain flat but that buildings with “ready to lease” spaces will see some activity as older Class B/C spaces become increasingly difficult to lease.