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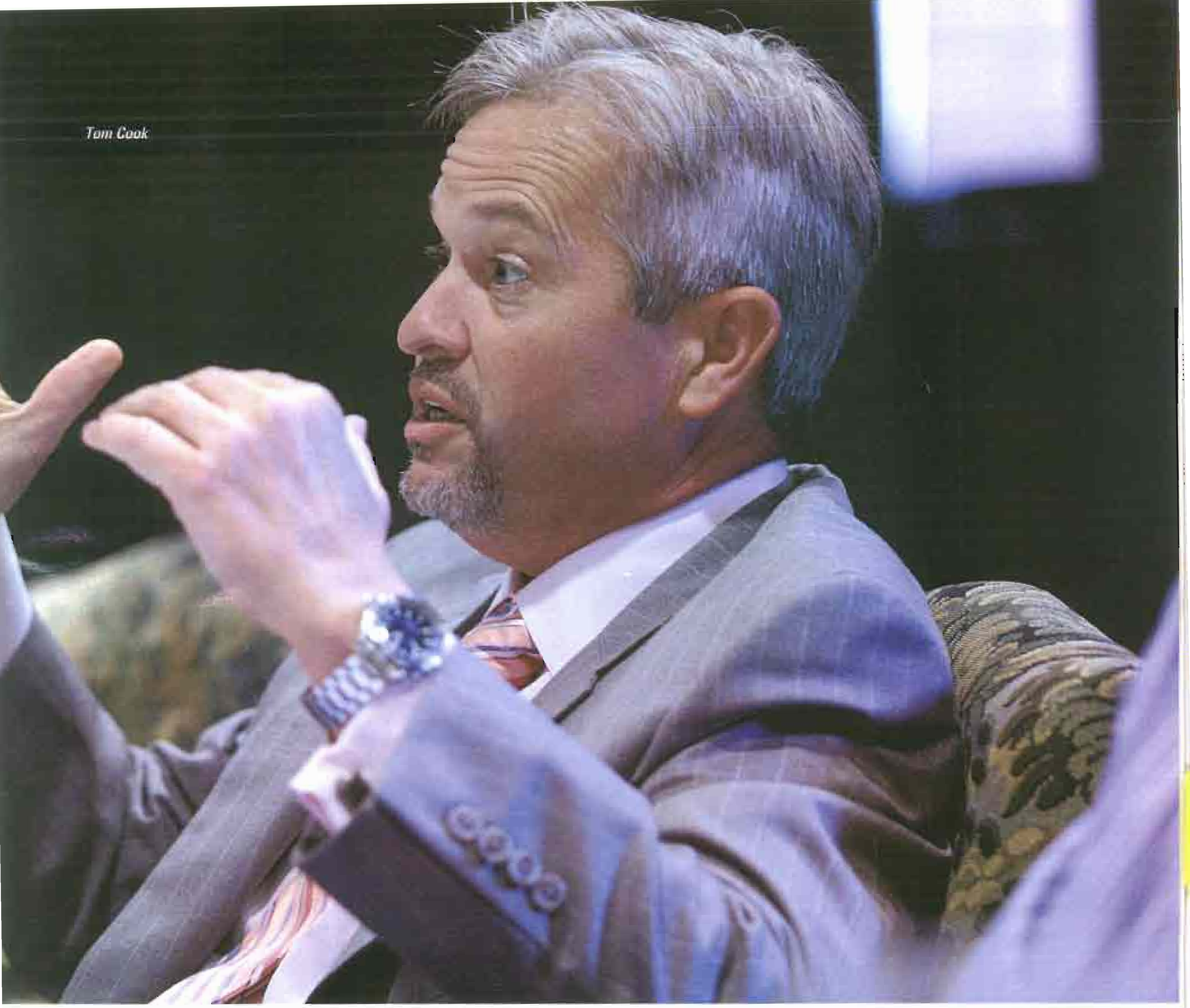
Todd Pevey (left) *and Don Stern*



TIM MUELLER

The Katrina effect

The post-storm wave has subsided, leaving a glut of lots, condominiums and questions in its wake.

BY TIMOTHY BOONE

The real estate boom triggered by Hurricane Katrina started to slow down in the past year or so. The housing market has cooled off as the pace of home sales declined. Overbuilding has led to a glut of upscale homes, and properties priced above $300,000 have sat unsold for longer periods of time.

Along with the slowdown in residential real estate, some softness hit the commercial market. Several major projects—including Juban Crossing lifestyle center in Denham Springs and Wal-Mart Supercenter on Burbank Drive—have been postponed for several months while national retailers take a break until the U.S. economy rebounds.

Despite the hiccups, Baton Rouge's real estate market remains healthy, especially in relation to other cities. Prices continued to rise and the demand for starter homes, especially in East Baton Rouge Parish, outstrips supply. The office and industrial markets are busy, thanks to the good times in the petrochemical industry and the reshuffling caused by Katrina. Several large-scale commercial projects are wrapping up, like Perkins Rowe and The Boulevard at the Mall of Louisiana.

Real Estate Report recently brought together six local real estate experts to get an idea of where the Capital Region market stands.

Question: What does each of you see going on in the local real estate market?

Tom Cook: What I see in the market really is a nervousness, and sometimes I wonder how warranted it is. We talked about how the national market is affecting us; Baton Rouge has growth, so we seem to be doing pretty well. What's scaring people is there's a slowdown in lot absorption, and there's a slowdown in condo absorption. I'm not seeing prices fall, but what I am seeing is that when we were doing four or five lots a month, we're [now] doing two or three lots a month.

It's due primarily because we overbuilt. The Katrina effect is coming home to roost a little bit. Everybody got excited and everybody got into building, everybody got into developing. So as a result, we got too many lots on the market, too many condos. The well-placed subdivisions are still doing well, the ones that are infill—closer to the old established areas—are doing fine. It's the outlying stuff that's further out that may not be as well-located or accessible that's not doing as well. The other thing you've got to think about is that gas prices are going to affect where people want to live more than ever before.

In the retail market, our study [for Trends] shows that the occupancies were still good, the rates were still good, we weren't showing drastic slowdowns there.

The office market is still relatively stable. We've seen some increase in vacancy, especially in the Class B and

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> TOM COOK, appraiser/owner, Cook Moore and Associates

Don Stern (right) and Todd Pevey

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Class C markets because of people going to owner-occupied, these little suburban offices that everybody's building. It's been phenomenal the amount of that space that has been built. I guess there's been 200,000 to 300,000 square feet of that space built over the last couple of years from Baton Rouge to Gonzales to Denham Springs. We're seeing those take people out of what somebody would have rented in a four-story building on Sherwood [Forest Boulevard]. Those guys are going out and building their own building, taking advantage of GO Zone, taking advantage of the drive up to your own building mentality.

Overall, things are slowing down, but it's not as bad as the national market. The hysteria from the national market, that everything's crashing and we're going to have a recession and everything's bad, really doesn't apply to Baton Rouge because of our job growth. We benefit from gas prices—look at all the plant expansions. We're kind of contrary to the trend. It is slowing down; we need to be a little bit more cautious. But you hear people talking like it's going to get like the 1980s again. That's hysteria.

Todd Pevey: It's more of a hangover effect ... where it was so good for the last couple of years and now people are worried about how bad it's getting. All of those people who deal with the industrial guys are just killing it right now. I do see where it took two or three months to do a deal now might take four or five months. But the activity is still there for the industrial space and for retail.

Cook: What I'm seeing in retail is the good, quality buildings in the good locations are doing OK. It's the little mom-and-pop strip centers where people are throwing up 6,000 or 8,000 square feet, they don't have any tenants and it's not really well-located or accessible. There's a lot of vacant space there. Drive down Coursey Boulevard or Jones Creek.

Dottie Tarleton: That's where history is repeating itself from back in the 1980s were there were all these unanchored little strip shopping centers. When the market went in the tank, they went in the tank.

Pevey: I would be nervous to build it right now, with the prices of construction right now. You got to be able to get land cheap to be able to build it, or your rents are going to be through the roof.

Q: How do things stand in the residential market?

Don Stern: I'm seeing prices holding or continuing to rise on average. The residential market is very strong, especially in the resale market. As a matter of fact, in Ascension Parish, it's stronger than it was last year. April 2008 is stronger than April 2007 in resale. New construction, different story. New construction, especially in Ascension Parish, we're a little less than half the sales we were in 2007.

After Katrina, land prices rose substantially. We used to be able to get raw land without too many mitigation problems for $15,000 an acre. Developers started paying $40,000 or $50,000 an acre for it. The cost to develop that land went up. The result was that builders where they were buying lots for $30,000, $40,000 or $50,000, now started paying $70,000, $80,000 or $90,000. The economics of that meant that they had to put a $350,000 or a $400,000 or a $500,000 home up. The demand for homes in that price range just is not matching the supply we have right now.

It's pricing. If you look in the lower price ranges, new construction is still continuing to move. It's the expensive stuff that's sitting there.

Q: What's the price break point?

Stern: It depends on which parish you're talking about. In Ascension Parish, it's probably $300,000 and up that's more or less in trouble. That's kind of understandable, because the new businesses that have come to Ascension Parish are not bringing in six-figure salaries. To qualify for a mortgage on a $400,000 home, your family income has to be fairly substantial. That's not the clerk at Cabela's who is buying that house. We need some more plant income, some construction jobs, some

more of the higher income jobs to absorb those properties. They are being absorbed, but not at the rate they were put up.

The average prices in Livingston are pretty stable, $192,000 for a new home in Livingston Parish in 2008 versus $188,000 in 2007. That's probably statistically insignificant. In terms of unit sales, we're way down. In April of 2004 there were about 80 units sold, in April of 2008, maybe 65. There's plenty of inventory. Overall, there's probably about a 10, 10-and-a half-month supply of inventory in Livingston Parish. If you look at houses in the $100,000 to $150,000 price range, there's only a 3.9-month supply. If you look at houses in the $350,000 to $400,000 range, there's a 16-month supply.

Q: What's driving the inventory?

Stern: The supply we're putting in place is not matching the demand that we have. We've got a mismatch. There's plenty of demand for lower priced homes; there's not that much supply. That's probably because you can't afford to build a lower priced home, because if the lot is 50% the price of the product, you can't do it.

Q: How about the retail market?

Tarleton: My take on what's going on is two-fold. The national retailers are being more cautious about the projects they want to take on. Typically, when you have a big project anchored by Target or Wal-Mart or Kohl's or somebody like that, they have a group of junior anchors that will follow them around, whether it's Ross Dress for Less or TJ Maxx or Hibbett Sports or whatever. When the big boys—the 100,000-square-foot tenants and up—slow down, the junior anchors are not going to step up to the party until the big boys are there.

And what they're doing is sort of dragging their feet—projects that were going to come on line in maybe late 2009 are like 2010 or early 2011. It's not that they're stopping everything or in a panic, they're just kind of dragging their feet. We're seeing a slowdown there. It's not because of retail sales here; it's in other areas of the country where they're having the housing problems.

As far as the mentality out there, there's sort of a self-fulfilling prophecy. If you keep hearing that the sky is falling, the sky is falling, eventually, you're going to think the sky is falling. So you're going to quit spending money. And when you quit spending money, then you go into a recession because our economy is consumer driven.


Paco Swain
TIM MUELLER

Dottie Tarleton

TIM MUELLER

We're certainly not in a recession, and I don't believe the national economy is in a recession. We only had a 5.1% unemployment rate. That is not a recession. You need to have two quarters of negative growth; we haven't had one quarter of negative growth. It's been like .1%, but it still hasn't gotten into a negative growth situation.

Q: What does Wal-Mart delaying its Burbank Supercenter mean for other retailers?

Tarleton: Part of the reason that Wal-Mart is slowing down is because their stockholders were unhappy with their same-store sales. This slowdown really doesn't have anything to do with the alleged recession that we're in. They issued a press release and said they're going to open up in 2010, so you're talking about a six-month delay.

We've been so spoiled in the past few years. Quite frankly, there aren't too many more sites left for big projects. The Victory Development site at Burbank and West Lee, whenever the big boys are ready to go, it will go. You've got population around it. You go out to Juban Road and try to put 1.2 million square feet of lifestyle center and power center and that's not to say that nobody lives in Livingston Parish, because a lot of people live in Livingston Parish, but if you ride out there, it's on the outer edge.

Q: How is the subprime meltdown and new standards in the credit market affecting local projects?

Pevey: We use a lot of national lenders out of Baltimore where we're headquartered, and they're a little reluctant to come here because of our bankruptcy laws in Louisiana are a little worse than the rest of the country. So we're having to go through different conduits and stuff like that to be able to be able to permanently finance our building down here.

Q: One of the biggest trends in local retail development has been the growth of lifestyle centers, such as Towne Center, Perkins Rowe and The Boulevard. Do the demographics of Baton Rouge support the volume of these lifestyle centers?

Tarleton: Our market was grossly under served for a very long time. I don't know exactly how people are doing at Perkins Rowe, but I know they're doing very well at The Boulevard at the Mall of Louisiana. Their sales are phenomenal, per square foot. The other thing is that New Orleans really doesn't have the upscale shopping that we now have in Baton Rouge, so you're seeing customers come from a much larger trade area. We have people from Mississippi and north Louisiana if you track the zip codes.

Donnie Jarreau: If everything that was planned came on board today, I don't think we could absorb the retail. But the developers who are planning it, they're all pretty astute guys who have good financial backing and they know that their plans may be five or 10 years down the line.

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Q: How deep is the TND market here, especially when you look at pricing per square foot?

Cook: The mentality is changing. It used to be, '$650,000 for a condo, are you out of your mind?' But they're selling them like that in the Crescent at a pretty good clip.

Jarreau: The problem with the TNDs, the ones that are being built, I think is that the commercial sector always comes last. You need the rooftops in there first. A lot of these proposed TNDs, they always announce 100,000 square foot plus of commercial. That's tough to get until you get the rooftops in there.

Paco Swain: Personally, the jury is still out on TNDs. I do believe we'll see a lot more of the Perkins Rowe-type situations. It's generational. We find that the crowd that's coming up now with the buying power, they're acclimated more with the work, live and play in the same area. Certainly the gas prices will dictate a whole lot of that decision-making. I'm interested to see if the TNDs will survive. That's quite aggressive, when you're talking those large-scale TNDs, with that much green space.

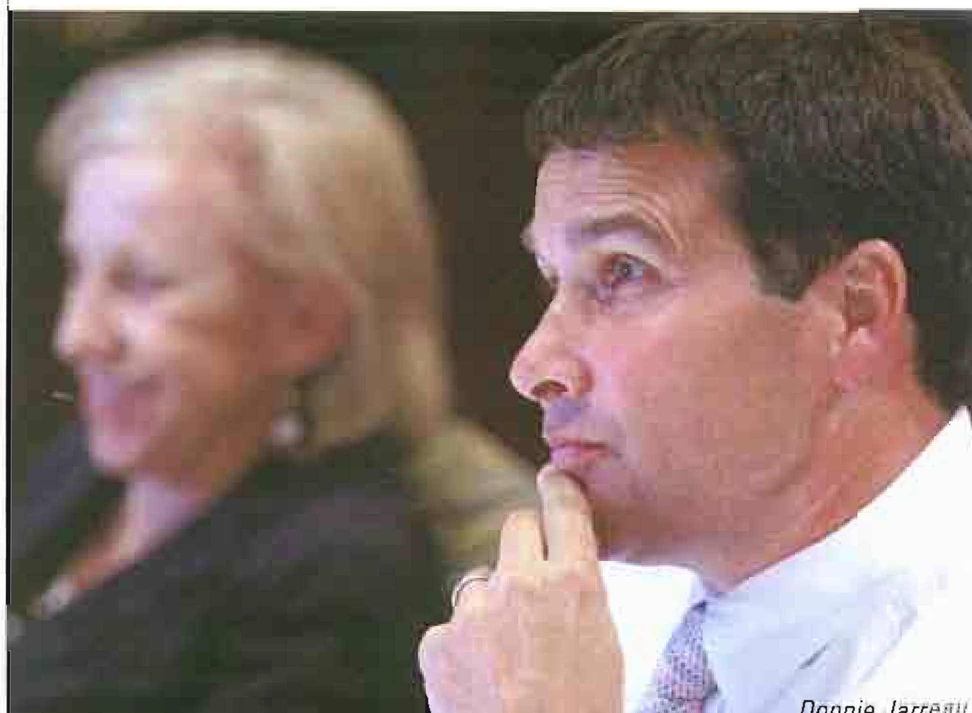
Q: How are TNDs selling?

Cook: Willow Grove's done pretty well. He's done relatively well pricing-wise and absorption-wise. It's slowed down the last few months, but it's like every other development. The best lots sell first, and the ones that aren't selling as quickly are the ones that are less desirable. He's [Richard Carmouche] done real well.

Tarleton: Now that gas costs are up, energy costs are up, people don't feel like driving an hour or whatever, it is going to move people into the TNDs.

Swain: It's a compression factor. If the TND is not spread out too far, if you compress them like Perkins Rowe and bring them in closer, my gut feeling would be that Perkins Rowe would sell quicker than a River Ranch [in Lafayette] because of the compression factor there.

Cook: It has to be well-located. You've got to pick the sites right.



Donnie Jarreau
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"There's **nowhere to go** but for the economy to **go upward**."

DONNIE JARREAU, developer/builder, Donnie Jarreau Companies

Jarreau: One of the things they didn't figure with River Ranch was, because of the newness, the prices escalated. Everybody wanted to get in there and the prices doubled.

Q: Donnie, what do you see going on in the market?

Jarreau: For the most part, I think we've got to look back at what did Katrina do. We're over the Katrina hangover, but there's some great things that happened during the past two years. Our lenders did a great job of underwriting the projects out there. We didn't do a whole lot of large speculative developments that are sitting empty today. I see some of the softness came in Ascension and Livingston, where everybody got in a development mode.

There's a softness that I see today because of the overbuilding of lots. But here in Baton Rouge in the commercial sector, some of the things that concern me would be the B and C office and retail buildings. But there's nowhere to go but for the economy to go upward. We're going to be fueled by these industrial plants that are taking advantage of the GO Zone. The plant expansion is bringing jobs, and when the jobs come in, you'll see obviously the continued spending in the retail. I don't believe the rebuilding of New Orleans has truly began yet, if you talk to developers down there. Baton Rouge could be the staging area for the rebuilding of New Orleans. I think everything will be started here, from construction to the labor. That will have a large impact, and we haven't seen it yet.

If you talk to other developers and other people out there, the South as a whole is doing good from Dallas all the way up to Pensacola. Everyone in the retail and compared to the housing markets, it's way ahead of the national scale.

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