

MARKET HIGHLIGHT: NEW ORLEANS

FOLLOWING MASSIVE CONVERSIONS, NEW ORLEANS' OFFICE MARKET IS TAKING SHAPE



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The New Orleans office market remains dynamic. The city has obviously changed dramatically in the 10 years since Hurricane Katrina and is on a continued path of change going forward. Positive change.

In the past 12 to 18 months, more than 1 million square feet of what used to be considered office space in downtown New Orleans has been converted to retail, hotel, residential or multifamily use. Projects such as 225 Baronne Street, the 1100 block of Tulane Avenue, 600 Carondelet Street, Factor's Row redevelopment and approximately 130,000 square feet of space at 1250 Poydras Street (a 423,000-square-foot, Class A tower) are just a number of examples. More of this space was unoccupied than occupied at the time of the conversions.

The most recent of these conversions, 600 Carondelet Street, resulted in the largest absorption of Class A office space in the market. Additionally, URS, now AECOM, leased approximately 70,000 square feet of space in 1515 Poydras, a 530,000-square-foot building located across from the Mercedes-Benz Superdome.

In the central business district (CBD), Class A office occupancy is a healthy 90 percent and average rental rates have increased in the past 12 to 24 months to approximately \$19 per

square foot. Recently, notable long-term commitments to New Orleans include Shell Oil Co. and FM Services (Freeport McMoRan), both through 2026. Shell Oil anchors One Shell Square, the largest office tower in New Orleans, and committed to occupy half of the 1.3 million-square-foot building in 2015. FM Services occupies 210,000 square feet of the 510,000-square-foot Freeport McMoRan Building, also on Poydras Street. Ochsner Health System recently finalized a deal to lease the entire Lord & Taylor Building, measuring 115,000 square feet. The building will be retrofitted, against the current trend in the CBD, from former retail space to office space for Ochsner's occupancy. The term is estimated to commence in late 2016.

Sales activity has been on the rise as well. Orleans Tower, a 379,000-square-foot, Class B building located at 1340 Poydras St., sold for approximately \$14.5 million; Energy Centre, measuring 761,500 square feet at 1100 Poydras St., sold for approximately \$83.5 million; and One Shell Square was sold from a portfolio of buildings owned by Equity Commonwealth. The building's pro-rata share of the portfolio would peg the value at approximately \$172 million. However, the value could be higher as One Shell Square was perceived to be one of the premier properties in the portfolio.

The suburban office market of Metairie boasts occupancy levels averaging 93 percent in the Class A buildings and 92 percent in the Class B buildings. Rental rates are typically higher than the CBD, and run as high as \$24 per square foot. It has been



Freeport-McMoRan is the anchor tenant of the 510,000-square-foot Freeport McMoRan Building in New Orleans. The company recently extended its lease through 2026.

a few years since a tower has sold, but there are a few Class B buildings presently available.

Much like many other markets,

the trend for young professionals to move to urban environments is the catalyst for growth in the CBD and neighboring Warehouse District. Low-rise office buildings are prime targets for residential redevelopment, which has resulted in the steady removal of Class B and C office product from consideration downtown, especially in the Warehouse District. The unique culture of New Orleans has attracted young people to the market, and they have proven that they want to live in a walkable environment. The conversion of these buildings is creating a shortage of low-rise office space in the submarket and will result in increased rental rates over time.

New Orleans office users are following the national trends of space utilization and designing more open, collaborative work environments due to the changes in workflow and types of businesses locating to the city. The city has received a number of accolades for growth, as a place to do business and, most importantly, a place to live. The office market should remain active in the near future, and the long-term outlook is bright.

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