

Birmingham saw several large transactions take place in the industrial property market over the third quarter of 2007, contributing to a significant boost in industrial occupancy. Absorption in the region increased by 338,719 square feet (sf), increasing occupancy rates to 86.6%. We attribute this growth to the steady expansion of locally based operations, a direct result of Birmingham's strong economy.

Overall demand in the third quarter was concentrated in bulk distribution space, accounting for an absorption of 354,167 sf for a total occupancy of 85.4% in that property type. At the same time, office/warehouse properties saw a slight dip in demand, resulting in negative absorption of 18,242 sf, while still maintaining an overall high occupancy rate of 89.6%. Finally, office service center properties saw modest absorption of 14,794 for a total occupancy rate of 88.4%.

The industrial market has witnessed new bulk distribution and office/warehouse development over the last few years, driven in particular by high occupancy rates south of downtown Birmingham.

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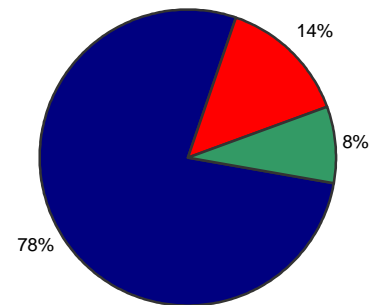
In fact, because development has been strong in the market's southern regions and the type of facilities that have been constructed, we feel it necessary to divide what was formerly a single submarket (I-459/Southern) into two separate submarkets, Southern and Southwestern submarkets. This allows us to more accurately assess growth in both the southern and western areas of the Birmingham market.

The Central submarket saw continued strong growth in the third quarter, with total absorption of 159,203 sf for a total occupancy rate of 91.0%. In particular, growth was driven by substantial new leases in the Birmingham Food Terminal & Distribution Center. Additionally, it is notable that office/warehouse space in the Central submarket is demonstrating almost full occupancy at 97.9%.

Meanwhile, the Eastern submarket saw negative overall absorption of 52,040 sf in third quarter for a total occupancy rate of 82.3%. However, this submarket has added 200,000 sf since the beginning of 2007—a 20% increase in inventory—while maintaining stable occupancy rates over the same period of time. Oxmoor Valley continues to capitalize on its central location to achieve high occupancy rates. In the third quarter, the Oxmoor Valley submarket witnessed quarterly absorption of 26,346 sf for a total occupancy of 94.0%. At the same time, because high occupancy indicates that less inventory is available, we anticipate an overall slowdown in activity in this submarket for the foreseeable future.

The Southern submarket saw overall absorption of 87,010 sf for the quarter for a total occupancy rate of 89.8%. One significant transaction, the expansion of a large user within the area, accounted for the bulk of the Southern submarket's third quarter activity. In the third quarter, the Southwestern submarket showed signs of growth with absorption of 118,210 sf, for a total occupancy rate of 63.5%. While this occupancy rate is low compared to the rest of the Birmingham market, this is due to the bulk distribution warehouses that account for the majority of product in this submarket and new speculative buildings that have not yet been leased. At the same time, given the area's proximity to a strong automotive sector in the Central Alabama region, we believe excess inventory in this submarket will be absorbed in the near future. ■

3Q07 Available Space by Property Type



■ Bulk Distribution ■ Office/Warehouse ■ Service Center

EGS COMMERCIAL REAL ESTATE MARKET HIGHLIGHTS**Significant 3Q07 New Lease Transactions and Renewals**

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
Shelby West Distribution Center	I-459/Southern	MailSouth	99,687	Bulk Distribution
Cahaba Valley Business Park	Southern	Owens & Minor	80,450	Bulk Distribution
Birmingham Food Terminal & Distribution Center	Central	Shaw Warehouse Co	75,000	Bulk Distribution

Significant 3Q07 Sale Transactions

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
N/A				

Significant 3Q07 Construction Completions

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

Significant Projects Under Construction

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Parkwest Corporate Center, 3	I-459/Southern	N/A	127,500	January 2008

EGS COMMERCIAL REAL ESTATE MARKET/SUBMARKET STATISTICS

Market/Submarket	Inventory	No. of Bldgs.	Overall Vacancy Rate	YTD Leasing Activity	Under Construction	YTD Construction Completions	YTD Overall Absorption	HT**	Direct Weighted Average Net Rental Rate*		
									BD	OW	SC
Central	4,239,248	75	8.6%	N/A	0	0	90,081	N/A	\$2.68	\$4.49	\$6.91
Eastern	1,224,300	17	17.7%	N/A	0	205,800	(50,939)	N/A	\$4.19	\$5.58	\$8.00
Oxmoor Valley	2,723,744	52	7.0%	N/A	0	0	118,086	N/A	\$4.33	\$6.89	\$6.43
Southern	3,743,837	60	10.2%	N/A	0	0	96,827	N/A	\$4.16	\$6.45	\$7.76
Southwestern	2,099,862	17	36.5%	N/A	0	0	96,450	N/A	\$3.72	\$5.07	N/A
TOTAL	14,030,991	221	13.5%	N/A	0	205,800	350,505	N/A	\$3.65	\$6.25	\$6.78

* Rental rates reflect \$psf/year

** High-Tech inventory does not exist in this market

HT=High Tech BD=Bulk/Distribution OW=Office/Warehouse SC=Service Center/Flex Space