

# MARKETBEAT



## BIRMINGHAM OFFICE REPORT

1Q11

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### Overview

The first quarter of 2011 ended with negative absorption across the office market. Absorption for the first quarter was negative 141,336 square feet (sf), a further decrease from negative 61,740 sf in the fourth quarter of 2010. Occupancy for the first quarter was 89.1%, down slightly from 89.9% at the end of 2010. Rents held steady in most submarkets with an average weighted rental rate of \$19.25 per square foot (psf) for the Birmingham market and \$21.24 psf for class A space.

### CBD & Midtown

Birmingham's Central Business District (CBD) and Midtown submarkets have historically fared better than Birmingham's suburban submarkets and continue to maintain the highest occupancy rates in the market at 91.5% and 91.6%, respectively. However, in the first quarter of 2011, both the CBD and Midtown had several large vacancies come back on the market due to tenants vacating or downsizing their office space, resulting in negative absorption for both submarkets. The CBD had negative absorption of 71,233 sf in the first quarter, with Midtown showing negative absorption of 70,469 sf.

### Suburban Submarkets

While all suburban submarkets have softened in recent

years to a certain extent, the 280/Southern submarket has been most impacted due to the amount of available sublease space. Overall occupancy for the 280/Southern submarket, factoring in available sublease space, is 77.6%. The average weighted rental rate for the 280/Southern submarket is currently \$21.27 psf, a decrease from \$21.78 psf in the first quarter of 2010. The decline in rental rates is essentially due to the amount of sublease space available in this submarket and has created an opportune time for tenants to negotiate favorable lease terms at a lower rate.

The Hoover/Riverchase and Vulcan/Oxmoor markets were Birmingham's only submarkets to show positive absorption in the first quarter, with 28,186 sf and 6,462 sf absorbed, respectively.

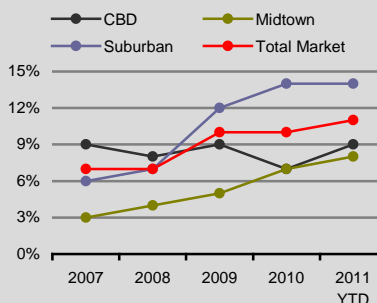
### Outlook

As the national economy continues its gradual recovery, Alabama's employment picture is slowly improving. The University of Alabama's Center for Business and Economic Research (CBER) forecasts non-farm employment growth of 0.7% in 2011, an increase of approximately 13,000 jobs. Leasing activity is dependent on job growth. As employment continues to improve, we will see a gradual increase in leasing activity.

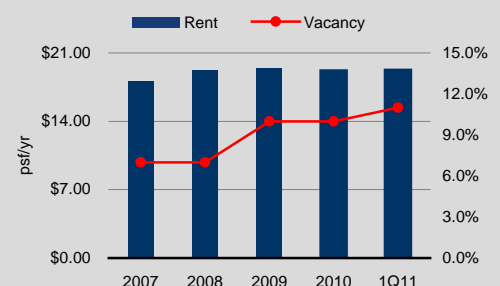
#### Stats on the Go

	1Q10	1Q11	Y-o-Y Change	12 month Forecast
Direct Vacancy	9.9%	10.9%	1.0 pp	▼
Direct Asking Rents	\$19.22	\$19.25	0.2%	◀▶
YTD Leasing Activity (sf)	133,111	90,292	-32.2%	▲

#### Direct Vacancy Trending



#### Direct Rental vs. Vacancy Rates



## Market/Submarket Statistics

Market / Submarket	Inventory	Overall Vacancy Rate	Direct Vacancy Rate	YTD Leasing Activity	YTD Direct Absorption	YTD Overall Absorption	Overall Wtd. Avg. All Classes Gross Rental Rate*	Direct Wtd. Avg. Class A Gross Rental Rate*
CBD	5,165,764	9.2%	8.5%	9,516	(71,233)	(63,898)	\$18.72	\$20.81
Midtown	3,955,209	9.4%	8.4%	20,046	(70,469)	(64,617)	\$20.28	\$21.79
280/Southern	5,444,559	22.4%	11.1%	13,346	(34,282)	(27,624)	\$19.91	\$21.60
Hoover/Riverchase	1,961,284	20.2%	16.1%	35,183	28,186	32,806	\$17.53	\$19.27
Vulcan/Oxmoor	823,591	25.4%	23.8%	12,201	6,462	6,462	\$14.84	N/A
<b>CBD</b>	<b>5,165,764</b>	<b>9.2%</b>	<b>8.5%</b>	<b>9,516</b>	<b>(71,233)</b>	<b>(63,898)</b>	<b>\$18.72</b>	<b>\$20.81</b>
<b>NON-CBD</b>	<b>12,184,643</b>	<b>18.0%</b>	<b>11.9%</b>	<b>80,776</b>	<b>(70,103)</b>	<b>(52,973)</b>	<b>\$19.06</b>	<b>\$21.36</b>
<b>BIRMINGHAM TOTAL</b>	<b>17,350,407</b>	<b>15.2%</b>	<b>10.9%</b>	<b>90,292</b>	<b>(141,336)</b>	<b>(116,871)</b>	<b>\$19.00</b>	<b>\$21.24</b>

\* Rental rates reflect asking \$psf/year.

## Market Highlights

### SIGNIFICANT 1Q11 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
The Crescent	Midtown	O'Neal Steel	13,200	A
2200 Lakeshore Parkway	Midtown	The Ritchie Organization*	10,737	A
2200 Lakeshore Parkway	Midtown	Grandbridge Real Estate Capital	9,045	A
Financial Center	CBD	Hale Sides & Adkins	6,165	A
1800 International Park	280/Southern	Mikos Insurance Company	4,000	A
Homewood Executive Center I	Midtown	Cahaba Media Group*	5,040	B
Shades Cahaba Building	Midtown	Capital Strategies	3,600	A

\* Renewal – not included in Leasing Activity Statistics

### SIGNIFICANT 1Q11 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
Regions Plaza	CBD	West Second Street Associates	240,000	\$5,000,000

### SIGNIFICANT 1Q11 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

### SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				