

MARKETBEAT OFFICE SNAPSHOT

BIRMINGHAM, AL

A Cushman & Wakefield Alliance Research Publication

Q4 2013



ECONOMIC OVERVIEW

Alabama's economy continues to see an improvement in overall stability. During the fourth quarter of 2013, Alabama's unemployment rate dropped to 6.1%, down from 6.8% in 2012.

According to the Alabama Department of Labor, the last time the state's unemployment rate was at or below 6.1% was in October 2008, when the rate was 5.9%.

As key performance indicators continued to improve, Birmingham's office market experienced a modest amount of leasing activity in the fourth quarter. Absorption for the quarter was negative 16,390 square feet (sf). However, total absorption for 2013 was positive with 178,929 sf. Rental rates held steady across most submarkets with an average weighted rental rate of \$18.74 per square foot (psf) for the overall Birmingham market and \$20.77 psf for class A space.

CBD AND MIDTOWN SUBMARKETS

The Central Business District (CBD) ended the fourth quarter with negative absorption of 40,700 sf, compared to positive 29,582 sf in the third quarter. This absorption was primarily due to a government entity moving back to its newly renovated space at the Hugo Black Federal Courthouse, thus vacating temporary space downtown. This absorption brought the occupancy rate down slightly from 90.9% in the third quarter to 90.1%. However, the CBD still maintained the second highest occupancy rate in the Birmingham office market.

The Midtown submarket experienced 27,660 sf of leasing activity in the fourth quarter and an increase in occupancy to 94.5%, up from 94.1%. Direct absorption was positive 18,880 sf in the fourth quarter with 119,641 sf absorbed for the year.

SUBURBAN SUBMARKETS

The 280 / Southern submarket experienced a slight decrease in occupancy to 89.1% in the fourth quarter, down from 89.4%. Absorption was negative 13,495 sf, a decrease from the positive 30,645 sf absorbed in third quarter. However, absorption for the year in the 280 / Southern submarket was positive with 45,250 sf, continuing the upward trend of the year.

The submarket that experienced the highest amount of absorption during the fourth quarter was the Hoover/Riverchase submarket with positive 41,998 sf. Notable transactions include Baptist Health System's lease of 25,083 sf at Chase Park South and Aerotek's lease of 10,087 sf at Concourse 100. Direct occupancy increased slightly from 84.4% in the third quarter to 86.5%.

Several tenants vacated office space in the Vulcan/Oxmoor submarket, resulting in negative absorption of 23,073 sf, a reversal from the positive 13,307 sf in third quarter 2013. Occupancy dropped almost 3.0% to 71.4% down from 74.2% in the third quarter of 2013.

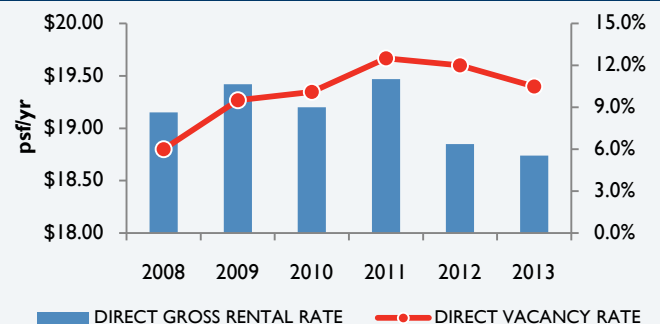
OUTLOOK

Despite generally positive news regarding Alabama's economy, Birmingham's leasing activity weakened slightly as businesses delayed major decisions due to year-end activities. However, with continued steady job growth and increased confidence in the overall market, Birmingham's office market is expected to experience healthy growth in 2014. This increase in activity could result in the development of new office product, most likely in the Midtown submarket.

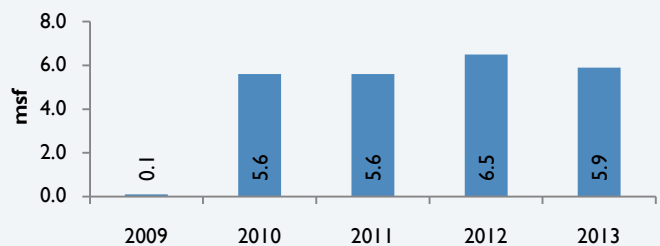
STATS ON THE GO

| | Q4 2012 | Q4 2013 | Y-O-Y CHANGE | 12 MONTH FORECAST |
|------------------------------|---------|---------|--------------|-------------------|
| Overall Vacancy | 15.2% | 11.4% | -3.8pp | ▼ |
| Direct Asking Rents (psf/yr) | \$18.85 | \$18.74 | -0.6% | ◀▶ |
| YTD Leasing Activity (sf) | 656,681 | 598,123 | -8.9% | ▲ |

DIRECT RENTAL VS. VACANCY RATES



LEASING ACTIVITY



BIRMINGHAM, AL

| SUBMARKET | INVENTORY | OVERALL VACANCY RATE | DIRECT VACANCY RATE | YTD LEASING ACTIVITY | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD DIRECT NET ABSORPTION | YTD OVERALL NET ABSORPTION | OVERALL WTD. AVG ALL CLASSES GROSS RENTAL RATE* | DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE* |
|-------------------|-------------------|----------------------|---------------------|----------------------|--------------------|------------------------------|---------------------------|----------------------------|---|---|
| CBD | 5,165,764 | 11.8% | 9.9% | 121,987 | 0 | 0 | (11,118) | (35,570) | \$19.26 | \$20.96 |
| Midtown | 4,005,209 | 6.0% | 5.5% | 162,507 | 0 | 0 | 119,641 | 107,802 | \$19.00 | \$20.84 |
| 280/Southern | 5,444,559 | 11.8% | 10.9% | 158,425 | 0 | 0 | 45,250 | 447,304 | \$20.34 | \$20.76 |
| Hoover/Riverchase | 1,961,284 | 13.5% | 13.5% | 104,727 | 0 | 0 | 21,872 | 26,372 | \$17.01 | \$19.64 |
| Vulcan/Oxmoor | 823,591 | 28.6% | 28.6% | 50,477 | 0 | 0 | 3,284 | 21,235 | \$13.30 | N/A |
| SUBURBAN | 12,234,643 | 11.3% | 10.7% | 476,136 | 0 | 0 | 190,047 | 602,713 | \$18.28 | \$20.68 |
| TOTALS | 17,400,407 | 11.4% | 10.5% | 598,123 | 0 | 0 | 178,929 | 567,143 | \$18.58 | \$20.77 |

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT 2013 LEASE TRANSACTIONS

| SUBMARKET | TENANT | BUILDING CLASS | SQUARE FEET | |
|--------------------------------|-------------------|-------------------------------------|-------------|--------|
| 1130 22 nd Street S | Midtown | Baptist Health Systems | A | 46,408 |
| 1731 1 st Avenue | CBD | Alabama Media Group | B | 28,000 |
| 1800 International Park Drive | 280/Southern | Tyco | A | 25,412 |
| 500 Chase Park South | Hoover/Riverchase | Baptist Health Systems | B | 25,083 |
| 950 22 nd Street N | CBD | Community Law Office | A | 18,558 |
| 1901 Sixth Avenue N | CBD | Northwestern Mutual (Sublease) | A | 18,185 |
| 600 Beacon Parkway West | Vulcan/Oxmoor | Portfolio Recovery Associates, Inc. | B | 16,964 |
| 2700 Corporate Drive | 280/Southern | Regus | A | 14,659 |
| 420 20 th Street N | CBD | Regus | A | 14,035 |
| 2204 Lakeshore Drive | Midtown | Robins & Morton (Expansion) | A | 13,678 |
| 3608 7 th Ct S | Midtown | Excell Communications, Inc. | B | 12,375 |
| 1400 Urban Center Drive | 280/Southern | Ferguson, Frost & Dodson | A | 11,134 |
| 2900 Cahaba Road | Midtown | Village Dermatology | B | 10,965 |
| 950 22 nd Street N | CBD | AirMed International, LLC | A | 10,250 |
| 100 Concourse Parkway | Hoover | Aerotek, Inc. | A | 10,087 |
| 4601 Southlake Parkway | Hoover/Riverchase | Callidus Software | A | 10,000 |

SIGNIFICANT 2013 SALE TRANSACTIONS

| SUBMARKET | BUYER | PURCHASE PRICE / \$PSF | SQUARE FEET | |
|-------------------------------|---------------|--------------------------------|-------------------------|---------|
| 100 State Farm Parkway* | Vulcan/Oxmoor | Lone Star Funds | Undisclosed | 313,000 |
| 505 20 th Street N | CBD | Allegiance Realty Corporation | \$20,850,000.00 / \$70 | 311,201 |
| 2 20 th Street N | CBD | PZZ TNT Property Owner LLC | \$19,075,000.00 / \$91 | 208,733 |
| 569 Brookwood Village | Midtown | MAA REIT | Undisclosed | 170,000 |
| 880 Montclair Road | Midtown | Montclair Office Partners LLC | \$2,300,000.00 / \$16 | 144,296 |
| 2311 Highland Avenue S | Midtown | Privet Birmingham Crescent LLC | \$25,397,748.00 / \$181 | 139,948 |

SIGNIFICANT 2013 CONSTRUCTION COMPLETIONS

| SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET |
|-----------|--------------|-----------------|----------------------|
| N/A | | | |

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| SUBMARKET | MAJOR TENANT | COMPLETION DATE | BUILDING SQUARE FEET |
|-----------|--------------|-----------------|----------------------|
| N/A | | | |

*SALE/LEASEBACK