Economy
The long-term trend in Alabama’s unemployment rate remains positive. In December 2015, Alabama’s unemployment rate fell to 5.4%, down from 5.7% twelve months prior. According to the Alabama Department of Labor, this is the lowest rate the state has reported since 2008. Continued job growth, combined with increased confidence in Alabama’s economy as a whole, should contribute to a positive outlook for the coming year. Birmingham received several accolades throughout 2015, including Number One on Forbes’ 2015 list of America’s Most Affordable Cities, the Number One Next Hot Food City in America by Zagat, and one of Six Cities Where Millennials Can Afford to Pay Rent by Bloomberg Business.

Market Overview
The Birmingham office market recorded overall negative absorption for the second year in a row. Vacancy increased from 12.4% at the end of 2014 to 13.6% at the end of 2015. However, vacancy rates are still below the historical five-year average of 14.6%. Additionally, in the fourth quarter of 2015, leasing activity measured 234,177 square feet (sf) and overall absorption for the quarter was 187,914 sf. This strong close to the year could be a positive indicator that the market is on an upswing overall. Direct weighted average asking rates rose slightly from $18.73 per square feet (psf) during 4Q 2014 to $18.80 psf in 4Q 2015. In development news, two build-to-suit projects have been announced and could begin construction in 2016 with delivery in late 2017 or 2018, totaling 400,000 sf of class A office space. Additionally, investors continue to have confidence in the multi-tenant market. Over 900,000 sf of multi-tenant office buildings were purchased in the 4th quarter, ending the year with a total of 2.5 million square feet (msf) in multi-tenant sales.

Outlook
The office build-to-suit projects that were announced are the first significant new construction starts since 2008. These projects appear to be in response to pent up demand in the office market, specifically in the Midtown submarket. Adding new construction should also have the effect of continuing to increase asking market rents, particularly for class A buildings in Midtown. The CBD continues to see momentum with new retail and multi-family developments. We expect this activity to ultimately impact the multi-tenant office market as more companies relocate to capitalize on a growing workforce downtown.
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Market Overview
Birmingham’s industrial market has seen a tightening over the last several years. There has not been any new speculative construction, and only a few build-to-suit projects, leading to a good deal of absorption over the last 24 months. Although 2015 ended the year with a modest 80,235 square feet of overall absorption, there was over 1.0 million square feet of leasing activity during the year. Rental rates are increasing, with the average asking rental rate escalating from $4.44 per square foot (psf) in the fourth quarter of 2014 to $4.58 psf at the end of 2015. These factors are creating a favorable landlord market. Some of this market activity is being generated by a $1.3-billion expansion currently underway at the Mercedes-Benz plant in the Southwestern submarket. The increased production capacity for Mercedes-Benz affects second- and third-tier suppliers, which translates into expansion projects or the leasing of additional square footage. Most of the other leasing activity has been organic growth from within individual companies as a result of the improving business climate.

Outlook
We expect a continuation of the current trends for the foreseeable future in Birmingham’s overall industrial market. No new speculative buildings have been announced or are anticipated. It appears that any new construction will be build-to-suit projects. The areas most likely to attract these projects would be the Southwestern submarket, which would likely be more ancillary activity related to Mercedes-Benz, the Eastern submarket, which is in close proximity to the Honda plant, or in the Central submarket to take advantage of the new interchange with I-22, which is currently being constructed.
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The overall Birmingham retail market continued to improve at a steady pace throughout 2015. The market experienced 162,679 square feet (sf) of absorption during 2015. The majority of this absorption, over 100,000 sf, occurred in Community and Power centers. The US Highway 31 South submarket recorded the lowest vacancy at 3.7%, followed closely by the US Highway 280 submarket at 5.7% and the Central submarket at 6.8%. The Eastwood/Irondale submarket measured the highest vacancy marketwide of 24.4%. Average weighted rental rates for the overall market rose slightly from $12.23 per square foot (psf) at year-end 2014 to $12.29 psf at year-end 2015. Average rates vary by type with Regional centers quoting the highest average rents at $28.84 psf. Several retailers opened new locations including a 50,000-sf Whole Foods in the Hoover/Riverchase submarket, which is the second Whole Foods location to open in the metro area, and PGA Tour Superstore in Inverness Plaza for 25,000 sf. Sprouts Farmers Market opened two stores in the metro area in 2015 and is scheduled to open another location on US Highway 31 in Vestavia in spring of 2016.

The outlook for Birmingham’s retail market is to remain steady and continue the trends seen in 2015. Several grocery-anchored centers began development and are scheduled to open in 2016. However, not many new projects are being developed, and the expectation is for this trend to continue as well, at least throughout 2016.