

ANNUAL MARKET REPORT | 2015



BIRMINGHAM, AL



OFFICE MARKET 2014 YEAR-IN-REVIEW



OVERVIEW

Birmingham's office market continues to progress in a positive direction. Direct year-end absorption for 2014 was positive 129,214 square feet (sf), a continued positive trend from 2013. Direct vacancy improved to 9.9% at year-end, down from 10.5% in 2013. Average weighted rental rates for the overall Birmingham office market held steady across most submarkets with an average weighted rental rate of \$18.73 per square foot (psf) for the overall Birmingham market and \$20.83 psf for class A space.

SUBMARKETS

Birmingham's Central Business District (CBD) ended 2014 with 4,142 sf of direct positive absorption, as compared with negative 11,118 sf at the close of 2013. Direct vacancy fell slightly to 9.2% in 2014, down from 9.9% in 2013. As a result, the average weighted rental rate in the CBD increased slightly to \$20.18 psf, up from \$19.79 psf in 2013. Leasing activity continued at a steady pace with 128,612 sf in 2014 and included Bressler, Amery & Ross's lease of 19,879 sf and Rumberger, Kirk & Caldwell's lease of 12,000 sf, both in Renasant Place (formerly Park Place Tower.)

Direct vacancy for the Midtown submarket saw a slight increase in 2014 ending the year at 6.1%, up from 5.5% in 2013. However, this submarket saw several deals in 2014 that positively impacted absorption and leasing activity, most notably, Surgical Care Affiliates's lease of 47,870 sf at Brookwood Village. Total direct absorption for the year remained positive with 67,117 sf, compared to 119,641 sf in 2013.

The 280/Southern submarket ended the year with positive 7,483 sf of direct positive absorption, compared to 45,250 sf in 2013. Leasing activity continued at a healthy pace with 189,944 sf in 2014, bringing the direct vacancy rate to 10.7%, down slightly from 10.9% in 2013.

The Hoover/Riverchase submarket continued to improve throughout 2014 with total direct absorption of positive 63,005 sf, compared with 21,872 sf in 2013. Direct vacancy fell to 10.1%, down from 13.5% in 2013. Significant lease transactions for 2014 included Atherotech's lease of 48,284 sf at Woods Point II, Proctor U's lease of 19,192 sf at 2200 Riverchase Center and McLeod Software's lease of 16,269 sf at 100 Concourse Parkway.

The Vulcan/Oxmoor submarket, which is comprised mostly of class B and Business Park space, ended the year relatively flat with 524 sf of positive direct absorption. However, direct vacancy fell 6.1 percentage points ending the year at 22.5%, down from 28.6% in 2013, as a result of a long-term owner occupant of a 313,000 sf class B office building entering into a sale/leaseback with an outside investor.

OUTLOOK

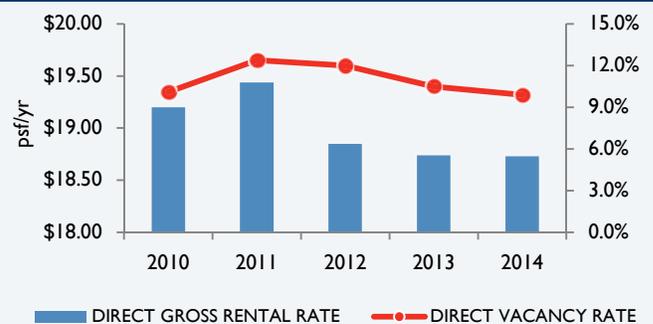
The ongoing resurgence of Birmingham's downtown continues to have a positive impact on the commercial real estate market as a whole, spurring leasing and sales activity in Birmingham's CBD and surrounding areas. Overall, commercial leasing activity remained healthy with 672,221 sf in 2014, the highest level recorded in the last five years. Investor sales activity also increased as several prominent class A office buildings changed hands during 2014, indicating growing confidence in the Birmingham market by outside institutional investors.

As the overall economy builds momentum and business confidence increases, Birmingham's office market is poised to experience healthy growth throughout 2015. This additional activity will continue to decrease vacancy levels across the Birmingham office market, contributing to overall market strength and improving the likelihood of new office development in the near future.

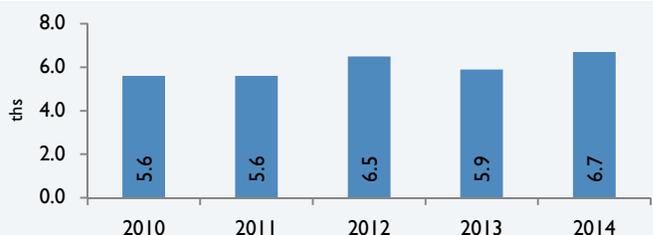
STATS ON THE GO

	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	10.5%	9.9%	0.6pp	▼
Direct Asking Rents (psf/yr)	\$18.74	\$18.73	0.1%	▲
YTD Leasing Activity (sf)	598,123	672,221	12.4%	▲

DIRECT RENTAL VS. DIRECT VACANCY RATES



LEASING ACTIVITY



INDUSTRIAL MARKET 2014 YEAR-IN-REVIEW



BIRMINGHAM, AL



OVERVIEW

Birmingham's industrial market experienced a noticeable increase in activity in 2014. During the fourth quarter alone, the industrial market recorded 411,094 square feet (sf) of direct positive absorption, bringing the total to 860,215 sf in 2014.

Leasing activity continued at a healthy pace ending the year with a total of 1,701,432 sf, a strong 85.5% increase over 2013. As a result, direct vacancy for all multi-tenant product types in all submarkets dropped 4.6 percentage points from 16.9% in 2013 to 12.4% at the close of 2014.

SUBMARKETS

The Central submarket ended 2014 with positive 84,170 sf of direct absorption, a continued positive trend from 2013. Direct vacancy ended the year at 17.4%, down from 19.1% in 2013. Leasing activity remained steady throughout the year and included Alabama Industrial Development Training's lease of 56,000 sf at 3500 6th Avenue South and Cheap Flooring's lease of 30,000 sf of bulk distribution space at BN Park, along with a number of smaller lease transactions at various properties.

The Eastern submarket showed improvement throughout 2014 with direct positive absorption of 197,350 sf, as compared to 18,852 sf at the end of 2013. Direct vacancy fell a substantial 10.0 percentage points to 5.8% at the close of 2014, down from 15.8% at the end of 2013, and now maintains the lowest vacancy rate of all the submarkets. Contributing to this growth was FedEx Ground Packaging's lease of 92,500 sf of bulk distribution space at Business Center East and Cardinal Health's expansion into an additional 90,000 sf of bulk distribution space at 3950 Valley East Industrial Drive.

The Oxmoor Valley submarket experienced growth with positive 137,361 sf of direct absorption, as compared to 81,818 sf at the close of 2013. Direct vacancy ended the year at 13.5%, down from 18.7% in 2013. Leasing activity remained strong with 232,182 sf leased in 2014.

The Southern submarket ended the year with direct positive absorption of 285,094 sf, a significant year-over-year change from the negative 115,734 sf that occurred in 2013. This submarket witnessed the two largest lease transactions of the year with Pradco Outdoor Brands leasing 263,000 sf of bulk/warehouse space at Shelby Commerce Park and Plantation Patterns leasing 247,000 sf of bulk distribution space in Phase II of Shelby Commerce Park. As a result, direct vacancy fell to 8.2%, down from 12.1% in 2013.

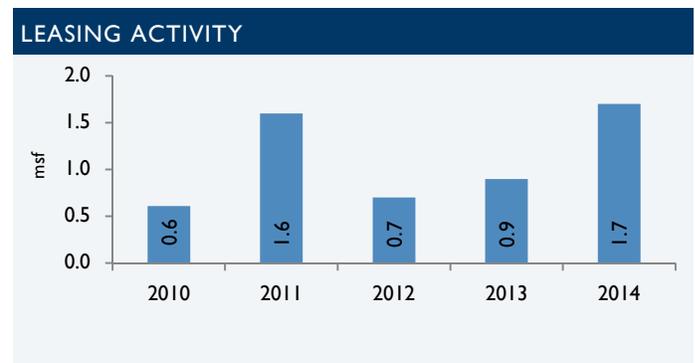
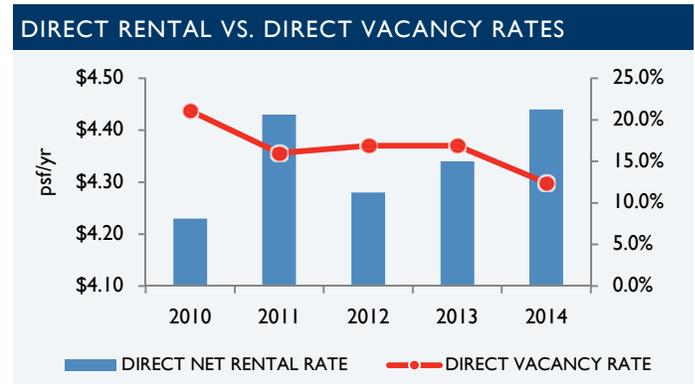
The Southwestern submarket also saw marked improvement in 2014 with year-end direct positive absorption of 156,240 sf, compared to negative 3,000 sf at the close of 2013. Direct vacancy fell to 13.9% in 2014, down from 19.6% in 2013, primarily driven by two lease transactions at Perimeter Industrial Park. ASTRA/CFX, a Tier One automotive supplier new to the Birmingham market leased 122,400 sf of

bulk distribution space and Gestamp leased 80,000 sf of bulk distribution space.

OUTLOOK

Overall, Birmingham's industrial market experienced steady growth throughout 2014. Alabama's positive business climate continues to strengthen, providing a strong competitive edge when it comes to industrial expansions. As Alabama's healthcare and automotive sectors continue to thrive, and the housing and aerospace industries gain momentum, vacancy levels are expected to decrease across Birmingham's industrial market throughout 2015, as there is no new speculative construction planned for the near term. As a result, asking rents should push higher and landlord concessions should decrease in most product types and submarkets.

STATS ON THE GO				
	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	16.9%	12.4%	4.5 pp	▼
Direct Asking Rents (psf/yr)	\$4.34	\$4.44	2.3%	▲
YTD Leasing Activity (sf)	917,854	1,702,432	85.5%	▲



RETAIL MARKET 2014 YEAR-IN-REVIEW



BIRMINGHAM, AL



OVERVIEW

Birmingham's retail market in 2014 saw modest activity compared to 2013. After absorbing 452,858 square feet (sf) in 2013, the market experienced negative absorption of 94,729 sf in 2014. As a result, total vacancy for the Birmingham market increased slightly to 10.9%, up from 10.1% in 2013.

At the same time, leasing activity continued at a steady pace with noticeable activity in the grocery sector. In 2014, Sprouts Farmers Market and Trader Joe's, two specialty grocery chains, announced plans to open their first Alabama stores in the Birmingham area, while Whole Foods Market announced it would open a second location in Birmingham.

SUBMARKETS

At the close of 2014, all submarkets, with the exception of the Eastwood/Irondale and Hoover/Riverchase submarkets experienced positive absorption. The largest amount of absorption occurred in the Western submarket with positive 70,098 sf. Total vacancy improved to 20.3% at year-end, down from 22.5% at the end of 2013. Contributing to this growth was The Village Thrift Store's lease of 45,000 sf at Midfield Shopping Center and Save-A-Lot Food's lease of 18,400 sf at West Hills Plaza.

The Highway 280 submarket experienced growth in 2014 with direct positive absorption of 45,032 sf, as compared to negative 86,893 sf at the end of 2013. Total vacancy improved slightly to 7.1% at year-end, down from 8.5%. Notable transactions included Sprouts Farmers Market's lease of 21,118 sf at Brook Highland Plaza and Urban Home Market's lease of 16,600 sf at Lee Branch II. In more good news, The Summit, Birmingham's popular mixed-use lifestyle center, welcomed several new-to-Alabama retailers including Athleta, Orvis, and Calypso St. Barth, among others.

The largest increase in vacancy during 2014 occurred in the Eastwood/Irondale submarket. Total vacancy increased to 22.4% at year-end, up from 4.1% at the end of 2013. This change in vacancy is primarily due to K-mart vacating 101,000 sf at Eastwood Plaza; however, plans are currently underway to redevelop and re-tenant this community center.

The Highway 31 South and Central submarkets held steady throughout 2014, recording negligible positive absorption for the year. The Highway 31 South submarket maintained the lowest vacancy rate of all the submarkets at 3.1%, unchanged from 2013. Total vacancy for the Central submarket also remained unchanged from 2013 at 9.2%.

Total vacancy for the Hoover/Riverchase submarket saw a slight increase, ending the year at 5.9%, up from 5.1% in 2013. Total absorption for 2014 was negative 39,952 sf, as compared with positive 130,967 sf in 2013. However, this submarket saw several deals that positively impacted leasing activity, most notably Whole Foods Market's lease of 51,962 sf at Riverchase Village and Royal Bedding's lease of 34,400 sf at Hoover Commons.

The Highway 280 and Hoover/Riverchase submarkets, which include three of Birmingham's Power and Super Regional Centers, maintain the markets highest rental rates at \$17.79 per square foot (psf) and \$17.95 psf respectively.

OUTLOOK

While Birmingham's retail market remained relatively flat throughout 2014, the outlook for 2015 remains positive. As Alabama's unemployment rate continues on a long-term path of improvement, and overall market fundamentals strengthen, consumer spending will increase resulting in more demand for the retail market. It is expected that overall leasing activity will continue at a modest pace throughout 2015, resulting in a decrease in overall vacancy across the Birmingham market.

STATS ON THE GO

	Q4 2013	Q4 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Direct Vacancy	10.1%	10.9%	-0.08pp	▼
Direct Asking Rents (psf/yr)	\$12.26	\$12.23	-0.25%	▲
YTD Leasing Activity (sf)	771,253	645,199	-16.3%	▲

ECONOMIC INDICATORS

	2013	2014F	2015F
NATIONAL			
GDP Growth	2.2%	2.4%	3.7%
CPI Growth	1.5%	1.7%	1.1%
Consumer Spending Growth	2.4%	2.5%	3.8%
Retail Sales Growth	4.2%	4.1%	4.8%
REGIONAL			
Median Household Income	\$48,328	\$47,712	\$48,813
Population Growth	0.5%	0.6%	0.7%
Unemployment	5.67%	5.79%	5.20%

*Source: Moody's Analytics

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