

# MARKETBEAT OFFICE SNAPSHOT



## BIRMINGHAM, AL

A Cushman & Wakefield Alliance Research Publication

Q1 2015



### ECONOMIC OVERVIEW

According to The University of Alabama Center for Economic Research, Alabama's economy is expected to grow by 2.4% in 2015, a slightly higher rate than the 2.0% rate of growth that occurred in 2014. The state's unemployment numbers continue to improve, as Alabama's unemployment rate dropped to 5.8% in February, down from 6.0% in January.

Despite generally positive news regarding Alabama's economy, Birmingham's office market got off to a slow start in first quarter of 2015. During the first quarter, direct absorption in Birmingham's office market was negative 153,433 square feet (sf), as compared with positive 76,089 sf in fourth quarter of 2014. Direct vacancy increased to 11.3% in first quarter, up from 9.9%. Overall vacancy, which includes sublease space, ended the quarter at 14.0%, a slight increase from 12.4% at the end of 2014. Average weighted asking rental rates for the overall Birmingham market and class A space increased slightly at the close of the first quarter to an average of \$18.85 per square foot (psf) and \$20.88 psf, respectively.

### CBD & MIDTOWN SUBMARKETS

Birmingham's Central Business District (CBD) ended the first quarter with negative 144,498 sf of direct absorption, a reversal from the positive 30,029 sf in fourth quarter of 2014. A large portion of this negative absorption occurred in class B space as a result of the former Federal Reserve Annex building (85,000 sf) being put on the market as a redevelopment opportunity. In addition, several tenants vacated office space at various class A and class B properties in the area. As a result, direct vacancy increased to 12.3%, up from 9.2% at the end of 2014.

Several tenants also vacated office space in the Midtown submarket resulting in direct negative absorption of 20,945 sf, as compared to positive 17,199 sf in the previous quarter. Direct vacancy increased slightly to 7.7% in the first quarter, up from 6.1%. However, this submarket continues to maintain the lowest vacancy rate of all the Birmingham submarkets.

### SUBURBAN SUBMARKETS

The 280/Southern submarket experienced direct negative absorption of 11,755 sf, as compared with positive 35,084 sf at the close of 2014. Direct vacancy increased slightly to 11.3%, up from 10.7%. Despite the negative absorption, this submarket reported the highest amount of leasing activity with 61,824 sf that included several lease transactions at various properties.

The Hoover/Riverchase submarket showed improvement during the first quarter with 18,749 sf of direct positive absorption, compared to negative 6,747 sf in fourth quarter of 2014. Direct vacancy fell to 9.1%, down from 10.1%.

Direct absorption for the Vulcan/Oxmoor submarket totaled positive 5,016 sf during the first quarter. Direct vacancy remained virtually unchanged at 22.4%, down from 22.5% at year-end 2014.

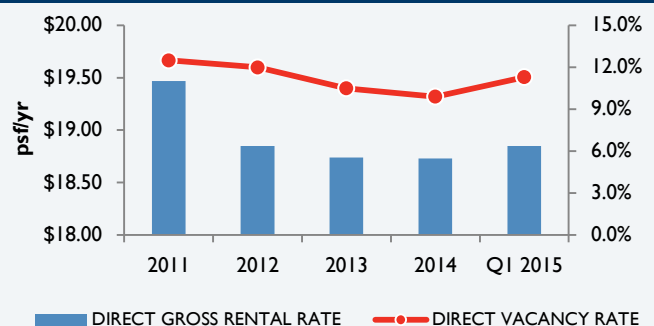
### OUTLOOK

As the overall economy continues to strengthen, and Alabama's unemployment rate improves, Birmingham's office market is poised to experience healthy growth throughout the remainder of 2015. At the same time, several residential and hotel developments were announced or are currently underway in downtown Birmingham that will continue to have a positive impact on Birmingham's commercial real estate market as a whole. Any additional activity throughout the year will improve vacancy levels across Birmingham's office market, improving the likelihood of new office development in the near future.

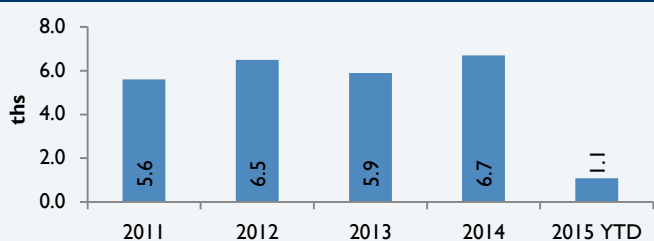
### STATS ON THE GO

	Q1 2014	Q1 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	13.4%	14.0%	0.6 pp	▼
Direct Asking Rents (psf/yr)	\$18.81	\$18.85	0.2%	▲
YTD Leasing Activity (sf)	115,287	108,273	-6.1%	▲

### 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	5,970,217	18.1%	12.3%	10,307	0	0	(144,498)	(135,538)	\$18.66	\$21.52
Midtown	4,100,614	8.0%	7.7%	11,744	0	0	(20,945)	(19,440)	\$19.95	\$19.92
280/Southern	5,494,559	13.0%	11.3%	61,824	0	0	(11,755)	(50,300)	\$20.23	\$20.80
Hoover/Riverchase	2,000,584	11.5%	9.1%	18,188	0	0	18,749	4,474	\$16.79	\$20.49
Vulcan/Oxmoor	1,136,591	22.4%	22.4%	6,201	0	0	5,016	5,016	\$12.85	N/A
SUBURBAN	12,732,348	12.0%	10.8%	97,966	0	0	(8,935)	(60,250)	\$18.43	\$20.57
<b>TOTALS</b>	<b>18,702,565</b>	<b>14.0%</b>	<b>11.3%</b>	<b>108,273</b>	<b>0</b>	<b>0</b>	<b>(153,433)</b>	<b>(195,788)</b>	<b>\$18.52</b>	<b>\$20.88</b>

\* RENTAL RATES REFLECT ASKING \$PSF/YEAR

## MARKET HIGHLIGHTS

SIGNIFICANT 1Q15 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
22 Inverness Center Parkway	280/Southern	Communications Unlimited Contracting Services (Sublease)	A	10,963
2100 Riverchase Parkway	Hoover/Riverchase	Hargrove Engineers	B	9,073
3535 Grandview Parkway	280/Southern	Burke Harvey	A	6,780
31 Inverness Center Parkway	280/Southern	SCS	A	6,717
1501-1526 4 <sup>th</sup> Avenue	CBD	Hanger Prosthetics & Orthotics	B	6,574
1800 International Park Drive	280/Southern	Tyco (Expansion)	A	6,361
SIGNIFICANT 1Q15 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
4000 Richard Arrington Jr. Blvd N	CBD	Coca-Cola	\$6,626,500 / \$128	51,727
201 Summit Parkway	Vulcan/Oxmoor	Gladstone Commercial Corp	\$3,950,000 / \$118	31,000
2024 3 <sup>rd</sup> Avenue North	CBD	SEBP Colonnade LLC	\$350,000 / \$17	21,000
431 Office Park Drive	Midtown	C3 Office Building LLC	\$3,700,000 / \$192	19,304
2229 1 <sup>st</sup> Avenue South	Southside	Gardendale Development Group LLC	\$1,600,000 / \$104	15,332
120 West Park Drive	Vulcan/Oxmoor	US Bank National Association	\$780,000 / \$65	12,000
SIGNIFICANT 2015 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A				
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET (% LEASED)
N/A				