

MARKETBEAT OFFICE SNAPSHOT



BIRMINGHAM, AL

A Cushman & Wakefield Alliance Research Publication

Q2 2015



ECONOMIC OVERVIEW

Alabama's economy continues to progress in a positive direction. At the close of the second quarter, Alabama's unemployment rate remained at 6.1%, unchanged from May 2015, continuing a long-term positive trend. On a local level, market

fundamentals have also shown improvement. According to the 2015 Regional Growth Report recently released by the Birmingham Business Alliance, the Birmingham seven-county region gained 3,011 jobs in new and expanding industries and \$370 million in capital investments in the region's primary business sectors during 2014.

During the second quarter of 2015, Birmingham's office market continued at a slow, but steady pace. Direct net absorption was negative 124,145 square feet (sf), with suburban submarkets contributing the most new availabilities to the office market. Direct vacancy increased slightly to 12.0%, up from 11.3% in first quarter. Overall vacancy, which includes sublease space, ended the second quarter at 14.5%, up from 14.0% reported last quarter. Average direct weighted asking rental rates for the Birmingham market and class A space increased slightly at the close of the second quarter to an average of \$18.91 per square foot (psf) and \$20.94 psf, respectively.

CBD & MIDTOWN SUBMARKETS

Birmingham's Central Business District (CBD) ended the second quarter with 24,646 sf of direct net positive absorption, an improvement over negative 144,498 sf in first quarter. As a result, direct vacancy fell to 11.9%, down from 12.3% in first quarter. In more good news, Infinity Insurance purchased the 120,493-sf former *Birmingham News* building and confirmed plans to move its headquarters to the CBD in 2016. Furthermore, existing tenants are staying downtown, as evidenced by Butler Snow's expansion of 10,040 sf at One Federal Place.

The Midtown submarket experienced direct negative absorption of 16,292 sf, compared to negative 20,945 sf in second quarter. Direct vacancy increased slightly to 8.1%, up from 7.7%. However, this submarket continues to maintain the lowest vacancy rate of all the Birmingham submarkets.

SUBURBAN SUBMARKETS

The 280/Southern submarket showed improvement with 27,398 sf of direct positive absorption in second quarter, compared to negative 11,755 sf in first quarter. Direct vacancy improved to 10.8%, down from 11.3%.

The Hoover/Riverchase submarket took the biggest hit with negative 158,856 sf of direct absorption, a significant reversal from positive 18,749 sf in first quarter. This negative absorption is primarily due to Surgical Care Affiliates vacating a large block of space at Galleria Tower and relocating to the Midtown submarket. In addition, several smaller tenants vacated office space at various class A and class B properties in the area. As a result,

direct vacancy jumped 8.0 percentage points to 17.1%, up from 9.1%.

Activity remained relatively flat in the Vulcan/Oxmoor submarket with negative 1,041 sf of direct absorption. Direct vacancy increased from 22.4% to 22.5%.

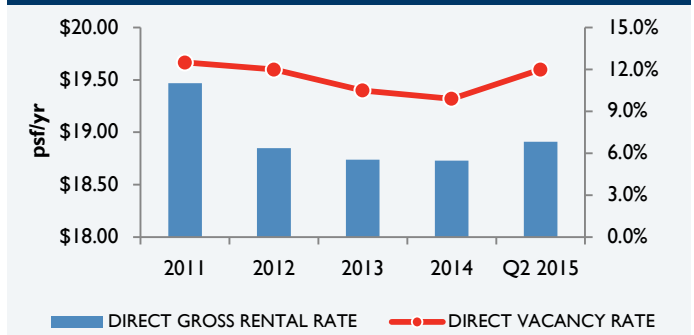
OUTLOOK

While overall vacancy reported a slight increase during second quarter, Birmingham's office market remains stable. Investor sales activity continues to increase, specifically with class A office buildings, indicating confidence in the market as a whole. Additionally, a number of hotel, multi-family and mixed-use development projects are currently underway in Birmingham's CBD, increasing excitement and momentum for the commercial real estate market as a whole. It is expected that overall market activity will increase steadily throughout the second half of 2015.

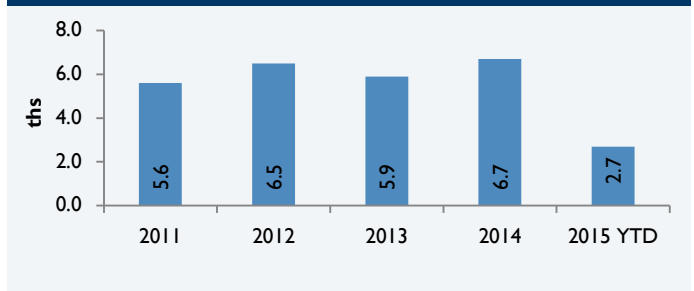
STATS ON THE GO

	Q2 2014	Q2 2015	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	13.1%	14.5%	1.4 pp	▼
Direct Asking Rents (psf/yr)	\$18.76	\$18.91	0.8%	▲
YTD Leasing Activity (sf)	367,348	269,239	-26.7%	▲

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	17.5%	11.9%	71,748	0	0	(119,852)	(98,159)	\$18.78	\$21.38
Midtown	4,100,614	8.3%	8.1%	43,620	0	0	(37,237)	(31,848)	\$19.89	\$20.12
280/Southern	5,494,559	12.4%	10.8%	103,639	0	0	15,643	(16,405)	\$20.21	\$20.86
Hoover/Riverchase	2,000,584	19.8%	17.1%	39,933	0	0	(140,107)	(161,167)	\$17.82	\$21.20
Vulcan/Oxmoor	1,136,591	22.4%	22.5%	10,290	0	0	3,975	3,975	\$12.84	N/A
SUBURBAN	12,732,348	13.2%	12.0%	197,491	0	0	(157,726)	(205,445)	\$18.45	\$20.74
TOTALS	18,702,565	14.5%	12.0%	269,239	0	0	(277,578)	(303,675)	\$18.58	\$20.94

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

SIGNIFICANT Q2 2015 LEASE TRANSACTIONS	SUBMARKET	TENANT	BUILDING CLASS	SQUARE FEET
17 20 th Street North	CBD	Bayside Business Solutions	B	10,700
1819 5 th Avenue North	CBD	Butler Snow (Expansion)	A	10,040
3595 Grandview Parkway	280/Southern	Alostar Bank	A	9,209
1927 1 st Avenue North	CBD	Undisclosed (Sublease)	B	8,052
3595 Grandview Parkway	280/Southern	iBeria Bank (Expansion)	A	7,880
17 20 th Street North	CBD	ConcertCare	B	6,000
1819 5 th Avenue North	CBD	ABC Storage	A	5,880
1-2 Chase Corporate Center	Hoover/Riverchase	JP Morgan	A	4,547
SIGNIFICANT Q2 2015 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
420 North 20 th Street*	CBD	Hertz Investment Group	\$75,400,000 / \$146	514,893
10 Inverness Center Place*	280/Southern	Hertz Investment Group	\$63,300,000 / \$139	456,105
2500 and 2600 Corporate Drive	280/Southern	Drummond Office Group	\$26,511,250 / \$135	196,216
2501 20 th Place South*	Midtown	Hertz Investment Group	\$15,200,000 / \$121	126,000
2201 4 th Avenue North	CBD	Infinity Insurance	\$20,000,000 / \$166	120,493
SIGNIFICANT Q2 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				

*Part of Six Building Multi-State Portfolio Sale