

MARKETBEAT

Birmingham, AL

Office Q4 2017



BIRMINGHAM OFFICE

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Birmingham-Hoover Employment	522k	525k	▲
Birmingham-Hoover Unemployment	5.7%	3.2%	▼
U.S. Unemployment	4.7%	4.1%	▼

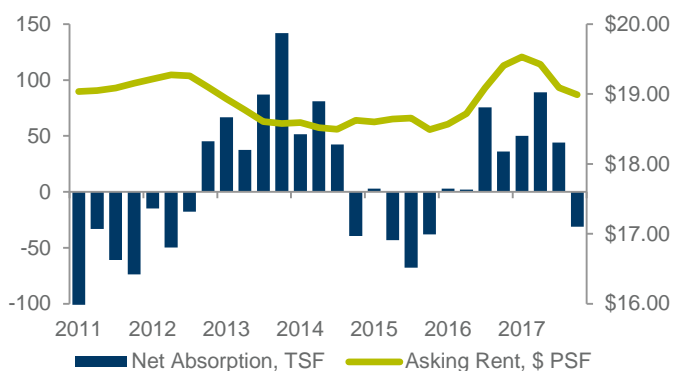
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	12.9%	12.9%	▼
YTD Net Absorption (sf)	144k	-134k	▲
Under Construction (sf)	300k	200k	▼
Average Asking Rent*	\$19.72	\$19.31	■

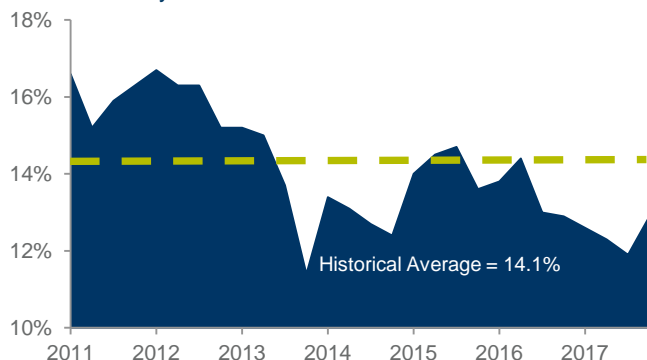
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The fourth quarter of 2017 brought positive news for Alabama's economy. According to the Alabama Department of Labor, Alabama's unemployment rate ended the year with a record low rate of 3.5%. This rate remains lower than the national rate of 4.1% recorded at year-end and is significantly lower than Alabama's December 2016 rate of 6.3%. Our state's improving job growth can be largely attributed to its business-friendly environment and ongoing, focused economic development efforts.

Market Overview

Overall absorption for Birmingham's multi-tenant office market totaled negative 133,951 square feet (sf) in 2017, a reversal from the positive 144,496 sf absorbed in 2016. A large portion of this negative absorption occurred in fourth quarter as a result of 300,000 sf of available office space being added to the multi-tenant office market with the conversion of the former Wells Fargo campus to a multi-tenant office park, now known as Patriot Midtown Park. Overall vacancy ended the year at 12.9%, with no change year-over-year. Vacancy for the Central Business District (CBD), however, dropped to 8.9% at year-end, down from 11.9% at the end of 2016, a result of downtown Birmingham's continued renaissance. Leasing activity remained steady, recording 749,048 sf for the year. The largest lease signed in 2017 occurred during fourth quarter at Inverness Center 44, where FIS leased 112,500 sf of office space. Rental rates remained steady across most submarkets with an overall weighted average asking rental rate of \$19.31 per square foot (psf) for the Birmingham market and \$21.25 psf for Class A space.

In development news, two office developments were completed in fourth quarter including ServisFirst's headquarters (100,000 sf) in the Midtown market and Pump House Plaza (40,000 sf) in the 280/Southern submarket. Additionally, office investment activity occurred in all Birmingham submarkets during 2017, signaling increased confidence in the market as a whole.

Outlook

Although Birmingham's office market ended the year with negative statistical numbers, the overall stability of the market is healthier than the net absorption indicates. Existing local companies such as Medical Properties Trust and National Bank of Commerce are continuing to expand their current office footprints, as their businesses reap the benefits from an improving economy. Continued job growth, combined with increased confidence in Alabama's economic environment should contribute to steady growth in 2018.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	5,938,217	75,469	528,703	10.2%	7,995	72,725	153,647	0	\$20.05	\$26.22
Midtown	4,181,896	11,179	362,202	8.9%	27,280	-30,846	151,056	0	\$21.97	\$23.18
280/Southern	5,469,320	63,859	571,485	11.6%	-6,227	146,961	350,304	200,000	\$20.24	\$20.44
Hoover/Riverchase	2,000,584	23,300	313,426	16.8%	-10,697	-26,104	56,483	0	\$18.35	\$21.88
Vulcan/Oxmoor	1,703,655	43,000	500,464	31.9%	-289,817	-296,687	37,558	0	\$16.14	\$21.50
BIRMINGHAM TOTALS	19,293,672	216,807	2,276,280	12.9%	-271,466	-133,951	749,048	0	\$19.31	\$21.25

*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	13,277,894	121,974	1,573,666	12.8%	-315,847	-206,778	476,282	200,000	\$21.25	\$21.48
Class B	5,190,113	94,833	610,278	13.6%	35,368	67,212	231,681	0	\$15.01	\$16.00
Business Park	825,665	0	92,336	11.2%	9,013	5,605	41,085	0	\$16.48	\$13.27

Key Lease Transactions 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
44 Inverness Center Parkway	112,500	FIS	Lease	280/Southern
1000 Urban Center Drive	67,254	Medical Properties Trust	Lease / Expansion	280/Southern
3700 Colonnade Parkway	55,124	RxBenefits	Lease	280/Southern
417 20 th Street North	36,027	IRS	Lease	CBD

Key Sales Transactions 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
200, 210, and 220 Wildwood Parkway	590,791	Wells Fargo & Company / Patriot Equities, L.P.	\$34,400,000 / \$58	Vulcan/Oxmoor
300, 500 and 1200 Corporate Parkway	365,096	The Matrix Group / SDM Partners	\$18,800,000 / \$51	280/Southern
2100 Southbridge Parkway	225,162	Greenfield Partners / YMP RE Mgmt	\$28,000,000 / \$124	Midtown
2100 3 rd Avenue North	152,222	Concord Center, LLC / Macfarlan Capital Partners	\$22,600,000 / \$148	CBD
100 Corporate Parkway	143,880	The Matrix Group / McLeod Software	\$11,600,000 / \$81	280/Southern
2000 International Park Drive	129,896	Iron Point Partners / IBERIABANK	\$13,500,000 / \$117	280/Southern
600 Luckie Drive	74,814	280 Associates, LLC / National Bank of Commerce	\$13,750,000 / \$204	Midtown

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