CLIENTS AND FRIENDS:

2017 was another year of improvement for the U.S. economy. Following that trend, Alabama’s economy ended the year with strong fundamentals as the state’s unemployment rate reached record lows. On a local level, Birmingham’s commercial real estate market demonstrated continued stability, fueled by steady employment growth and healthy economic indicators across all sectors.

As we close out the first quarter of 2018, the Birmingham metropolitan area remains at the core of our state’s positive momentum, reflecting a healthy and diverse economy. As Alabama’s business-friendly economic climate attracts businesses and people to our region, the Birmingham market is poised for continued growth throughout the year.

Recently, our firm celebrated our 30th anniversary, a milestone that reminds us of our immense sense of pride for the place we call home — Birmingham, Alabama. While our reach extends far beyond the Magic City through our long-standing relationship with Cushman & Wakefield as an Alliance Member, we are especially proud to have played an active role in Birmingham’s growth since our founding in 1987 and remain committed to its future success.

With this in mind, we are pleased to present, THE STATE OF COMMERCIAL REAL ESTATE 2018, our annual market report that provides a comprehensive overview of the trends and activity that shaped the office, industrial and retail landscape of the Birmingham metropolitan area during 2017, as well as our outlook for 2018 market activity.

New to this year’s report are Need-to-Know facts about our market that highlight our area’s successes, specifically those that play an integral role in the future growth of Birmingham’s commercial real estate market as a whole.

We are pleased to share our knowledge with you about two of our favorite topics — commercial real estate and Birmingham, Alabama — and look forward to a collectively successful 2018!
Alabama's economy continued to strengthen throughout 2017, mirroring national trends. According to the Alabama Department of Labor, Alabama’s unemployment rate ended the year with a record low rate of 3.8%. Additionally, Alabama experienced the largest year-over-year average rate drop in the nation. On a local level, Birmingham's ongoing revitalization efforts and vibrant culinary scene caught the attention of several regional and national publications including *The New York Times*, *Forbes*, and *Garden & Gun*, among others, promoting the city's positive attributes to a national audience.

### 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. Leasing activity continued at a modest pace, recording 749,048 sf for the year. The largest lease signed in 2017 occurred 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 all classes and $21.25 psf for Class A space. In development news, two office projects were completed, including ServisFirst's headquarters (100,000 sf) in the Midtown submarket and Pump House Plaza (40,000 sf) in the U.S. Highway 280/Southern submarket. Nearing completion is Encompass Health's (formerly HealthSouth) headquarters (200,000 sf) in the U.S. Highway 280/Southern submarket, with expected delivery in early 2018. Additionally, office investment activity occurred in all Birmingham submarkets throughout the year, signaling increased investor confidence in the market as a whole.

### OUTLOOK

Although Birmingham’s office market ended 2017 with negative statistical numbers, the overall stability of the market is healthier than the net absorption indicates. As Alabama’s economic climate continues to improve, job growth is expected to remain steady, resulting in overall positive growth in Birmingham’s office market throughout 2018. Most of this growth will be organic from existing local companies expanding their current office footprints in response to the strengthening economy. New construction will most likely be generated by build-to-suit projects or with significant pre-leasing in place, continuing this recent trend.
Alabama reached a significant milestone in wage and salary employment in 2017, surpassing the two million job mark for the first time in almost nine years. Our state’s improving employment growth can be largely attributed to its business-friendly environment and ongoing, focused economic development efforts. Several major economic development projects representing a broad range of industries, from agriculture to automotive to aerospace, were announced or are currently underway in Alabama that will continue to positively impact the economic landscape throughout the state.

ECONOMIC INDICATORS

<table>
<thead>
<tr>
<th>Submarket Statistics (Overall)</th>
<th>Vacancy Rate</th>
<th>YTD Net Absorption (sf)</th>
<th>Average Asking Rent*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central</td>
<td>15.1%</td>
<td>601</td>
<td>$3.51</td>
</tr>
<tr>
<td>Eastern</td>
<td>28.3%</td>
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<td>Oxmoor Valley</td>
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</tr>
<tr>
<td>Southern</td>
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<tr>
<td>Southwestern</td>
<td>3.5%</td>
<td>166,722</td>
<td>$5.16</td>
</tr>
</tbody>
</table>

*Rental rates reflect net asking $/ft²/year

MARKET OVERVIEW

Overall net absorption for Birmingham’s multi-tenant industrial market ended the year with negative absorption of 231,700 square feet (sf), compared with positive 1,371,779 sf absorbed in 2016. This negative absorption occurred primarily in the first quarter of the year as a result of a 500,000-sf warehouse, acquired by an owner-user in 2016, being put on the market for lease. Overall vacancy improved quarter-to-quarter throughout 2017, ending the year at 10.6%. Leasing activity remained steady totaling 974,863 sf for the year, which is slightly below the 1,116,071 sf recorded in 2016. Notable development projects include Truck & Wheel USA’s 127,000-sf build-to-suit facility recently completed in the Southwestern submarket and Oxmoor Logistics Center, the 112,500-sf, Class A industrial speculative warehouse development currently under construction in the Oxmoor Valley submarket.

OUTLOOK

Overall, Birmingham’s multi-tenant industrial market remains healthy and continues to tighten. As economic activity surrounding Alabama’s automotive and aerospace industries continues to gain momentum, Birmingham’s industrial market will benefit from increased demand in 2018. At the same time, developers are responding to the tightening industrial market conditions in Birmingham’s seven-county region, as evidenced by the increase in new construction projects in the area. While most recent development projects have been build-to-suit facilities, the first speculative warehouse building in the Birmingham market in a number of years broke ground in 2017, indicating sustained confidence in local market conditions.
Current economic conditions throughout the U.S. have positively impacted consumer confidence on a national and local level. According to the Center for Economic Research at the University of Alabama, Alabama’s economy expanded by 2.2% in 2017 and is expected to grow at a slightly higher pace of 2.4% in 2018. Additionally, Alabama’s job market continues to show signs of improvement, adding just over 32,000 jobs in 2017. As overall market indicators remain positive, overall consumer spending will increase resulting in more demand for the retail sector as a whole.

MARKET OVERVIEW
Year-end absorption for Birmingham’s retail market totaled negative 53,595 square feet (sf), compared with positive 57,323 sf in 2016. As a result, total vacancy for Birmingham’s retail market fell slightly to 10.3%, down from 10.1%. Average weighted rental rates for the overall market increased from $11.99 per square foot (psf) in 2016, to $12.45 psf in 2017. While there were several closures of big box stores announced in 2017 that negatively impacted absorption, leasing activity remained steady and attracted several national and regional tenants to the Birmingham metro area. New-to-the-market retailers who leased space in 2017 included Warby Parker, Hanna Andersson, Floor and Décor, and Tory Burch, among others. In more good news, Birmingham remains a desirable market to outside investors. In 2017, over 1.5 million sf of retail space changed hands including Cahaba Village in the U.S. Highway 280 submarket, Clay Marketplace in the Eastern submarket, and Vestavia City Center, Homewood Commons, and Edgemont Town Center all located in the Central submarket.

OUTLOOK
Overall, the retail climate for Birmingham remains healthy, a reflection of the continued renaissance and energy that has been seen in the downtown Birmingham area with the recent openings of the Pizitz Food Hall, Topgolf, 20 Midtown, and The Waites, among other new amenities. The outlook for Birmingham’s retail market is positive with a foreseeable continuation of the current trends. Leasing activity is expected to continue at a steady pace, resulting in stable vacancy rates and rental rates for retail property owners. Retail construction will primarily consist of grocery-anchored retail centers, mixed-use developments and redevelopments of existing retail centers in desirable locations.
JOB GROWTH ON THE RISE

In 2017, Alabama’s annual average unemployment rate dropped 1.5% – the best annual average improvement in the nation. According to Labor Secretary Fitzgerald Washington, “What we are doing is working. Alabamians are working, and employers are hiring.”

ALABAMA EXPORTS MAKE INTERNATIONAL IMPACT

Alabama exports reached a record $21.7 billion in 2017, powered by rising overseas shipments of products such as automobiles, aircraft components, chemicals, paper and minerals. State businesses exported goods to 189 countries last year, a reflection of Alabama’s economic vitality.

CULINARY SCENE GARNERS NATIONAL PRAISE

Birmingham is gaining national publicity as a culinary tourism hotspot from the likes of Zagat, The San Francisco Chronicle, Buzzfeed and others—and is once again well-represented on the 2018 list of James Beard foundation semifinalists. These national accolades have contributed to the overall growth and renaissance of our city.

TECH SECTOR SPURS NEW GROWTH

Alabama’s positive business climate has created an inviting and affordable environment for start-ups, spurring growth in the local tech sector and landing Birmingham on Livability.com’s list of Up-And-Coming Tech Hotspots to watch in 2018.

HISTORIC TAX CREDITS PROVE WORTH

Alabama's renewed historic tax credit program is already stimulating growth in its first year back. Tax credits totaling $20 million were recently approved for multiple projects across the state, demonstrating a strong interest in continued investment and historic preservation.