

Commercial real estate takes pounding: Birmingham brokers say some recovery signs are apparent

Mid-Year Economic Forecast

Birmingham Business Journal - by [Lauren B. Cooper](#) Staff

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Signs of life are beginning to show in Birmingham's commercial real estate market, but local brokers say the future is still uncertain.

Through the course of the recession, retail property has taken a beating from large and small retailers closing doors. But by mid year, vacancy rates appear to be hovering in the high single digits in the Birmingham area, which isn't bad, said Bill Clements, a broker at [Retail Specialists Inc.](#)

That's because retailers in a position to lease space and move forward are doing so and taking advantage of a soft market, where landlord concessions abound, he said.

"They're paying lower rents and getting more free rental," he said. "There's not much tenant improvement dollars, but the concession is lower rent or performance clauses. Landlords are doing what they can."

But the space left behind by fledgling big box retailers will probably be around for a while, Clements said, unless there's valuable equipment and fixtures that can be used by other businesses in that space.

Leasing activity in Birmingham's office market is little changed from the beginning of 2009, said Dan Lovell, director of Graham & Co.'s office group.

"There wasn't much then and there's not much now," he said.

Visibility has changed a lot though, as companies are in a better position to know where they stand in today's economy. Brokerage activity will begin to pick up, he predicts, when businesses begin to right-size themselves and shed unneeded space. And the local market is likely to have its share of commercial foreclosures.

But that will allow companies that sat on the sidelines in the boom years because of high property values to get back into the game to compete and upgrade to better space.

New development will be nonexistent in the remainder of the year and replaced by rehabilitation of older buildings, said Lovell.

Plummeting unemployment in the first half of the year was a big surprise for Birmingham's apartment market that dragged down occupancy levels, said Bill Butler of [Engel Realty Co.](#)

"In the last quarter of 2008, there was very little movement," he said. "People vacated in a normal fashion, but there was not enough prospects to fill them back up."

So apartment landlords, including Engel, fought back aggressively – offering rental concessions and bringing occupancy back to around mid 90 percent.

Butler said he expects more of the same for the remainder of the year, as area landlords fight for the same tenants, and very little investment activity because banks remain locked up on lending.

In the Trenches: Mark Byers

Mark Byers, a 22-year veteran of the industrial and commercial real estate industry, is executive vice president at [EGS Commercial Real Estate Inc.](#)

BBJ: *Looking back to January, is Birmingham's industrial market worse or better than you thought it would be?*

Byers: In forecasting out and considering the economy, we anticipated a slower year – but it's been slower than that. Credit markets are drying up and making tenants nervous. The good news about a recession is they always end and landlords who are able to weather the storm will regain leverage in terms of opportunities to fill buildings and increase lease terms.

BBJ: *What's your outlook for the remainder of the year in the industrial market?*

Byers: About the same. So much of our market in Birmingham is driven by automotive and health care, and size and population dictate branch operations and locations.

BBJ: *[Has Norfolk Southern Corp.](#)'s announcement to build a facility in McCalla caused a stir among national companies?*

Byers: It certainly is significant and should bring significant activity to the southwestern market, which is the softest market in Birmingham. It'll take a year or so after it's built though. There have been tire-kickers as a result. What will begin to occur is likely some strategic acquisitions in land in anticipation of long-term development.