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MARKET REPORT

Market Intelligence Report: Birmingham, Alabama

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With over $200 million in proposed hotels for the City Center and myriad new developments driving demand, Birmingham's lodging market has the opportunity to flourish.

Birmingham has been a crucible for change since its incorporation in 1871. From frailty following the Wall Street crash of 1873 and an outbreak of cholera to the industrial strength of iron and steel production; from racial riots to some of the greatest achievements of the civil rights movement; and from an industrial city in decline to one of the most diverse cultural and economic centers in the Southeast, Birmingham seems perfectly suited for its "Magic City" sobriquet.

Birmingham is in the midst of another evolution, one that the Convention and Visitors Bureau wants to characterize with the moniker "The Diverse City." This diversity extends to the collection of business enterprises, the offerings Downtown, the expansions of the convention center and the Entertainment District, and new and proposed hotels. This article looks at how these are coming into concert in Birmingham's City Center.

Business and Industry

Neighboring deposits of iron ore, coal, and limestone—the composite elements of steel—served as the substratum for building Birmingham up as a great center of industry in the late 19th century. Today, Birmingham has transformed into one of the most important business centers in the Southeast and one of the largest banking centers in the U.S. One Fortune 500 company (Regions Financial Corporation) and five Fortune 1,000 companies call the city home. Birmingham also boasts a strong medical and research industry, with facilities such as the University of Alabama Medical Center and the Southern Research Institute gaining national prominence.

The City Center

Birmingham's City Center extends from the Birmingham-Jefferson Convention Center to Five Points South and from Interstate 65 to the Red Mountain Expressway. As the heart of Birmingham, the City Center owes much of its ongoing revitalization to the efforts of Operation New Birmingham (ONB), a public-private partnership funded by the business community and the City of Birmingham with support from Jefferson County.

In 2004, ONB introduced a five-year plan called Implementation Now, which proposes 13 goals on the way to revitalizing the City Center. Key points include:

- Developing the service industry and new venues to draw people Downtown;
- Renovating the "12 Most Wanted," referring to the largest vacant buildings in the City Center (progress is underway on

nine);

- Reducing the number of vacant structures;
- Developing the Railroad Reservation Park and establishing other green spaces;
- Supporting the expansion of the University of Alabama at Birmingham;
- Adding 2,500 new condominiums and apartments by the end of 2009;
- Expanding healthcare centers;
- Sponsoring special events;
- Restoring the historic Lyric Theatre;
- Addressing homeless issues; and
- Increasing promotional efforts and outreach.

Such is the framework of a plan to draw more tourists and residents to a safer, more vivacious Downtown.[1] Special emphasis is on the Five Points South district, with print and online advertising highlighting bars, restaurants, and attractions in the area.

To achieve the goals set forward in the Implementation Now master plan, ONB has overseen several major projects, including the introduction and expansion of several districts. The Entrepreneurial District is anchored by Innovation Depot, a $17-million emerging business center. The Theater District comprises institutions dedicated to entertainment, education, and the arts, including the historic Lyric Theatre, the McWane Science Center and IMAX Theater, the Carver Performing Arts Center/Alabama Jazz Hall of Fame, and historic Masonic halls and other architectural icons.

ONB plans to promote and expand the Entrepreneurial District and develop a concentration of technology-related businesses along First and Second Avenues North. The Railroad Reservation Park, another major project, connects the University of Alabama at Birmingham and the medical complex to the Central Business District. The park will serve as a "seam" to fasten the residential, commercial, and entertainment elements of the City Center with 14 acres of green space.[2] More restaurants, residential housing, and entertainment venues are also planned for the Entertainment District.

Office Tenancy, the University, and the Convention Center

Occupancy for the City Center's expanding office market stood at nearly 93% as of third-quarter 2008.[3] Several developments have made this possible, such as the consolidation of Regions Bank's headquarters with the law firm of Balch & Bingham to fill over 100,000 square feet in the Regions-Harbert Plaza Building. The former Regions Tower Building was sold and will be renovated into a Marriott Renaissance hotel.

Several hotels have been proposed for sites proximate to the University of Alabama at Birmingham (UAB) and university-associated medical facilities. A Women's and Infants Hospital, which will link to the main UAB Hospital and the nearby Children's Hospital, is currently under development. The Children's Hospital is also undergoing expansion.[4] UAB, whose medical research and natural sciences programs enjoy high renown, has an annual economic impact of more than $3 billion on the Birmingham area. An extended-stay hotel (the proposed Residence Inn by Marriott) and other limited-service hotels in this area will likely be heavily utilized by the visitors to the University facilities.

The Birmingham-Jefferson Convention Complex (BJCC) sits at the hub of the Entertainment District. The BJCC reported more than 1.7 million attendees in 2007, and events already booked for 2009 include such high-profile acts as Celine Dion, The Eagles, and the Riverdance troupe's "farewell performance."[5] The BJCC is connected to the 770-room Sheraton hotel, which recently underwent a multi-million-dollar renovation to more elegantly accommodate convention center delegates. Nonetheless, one factor seems to keep the convention complex from its full potential—an under-supply of hotel rooms to meet the facility's demand.

New Hotels

Over $200 million in new hotel developments have been proposed for the City Center, two adjacent to the BJCC and others within walking distance. These include:

Proposed Hotel	Number of Rooms	Estimated Opening Date	Developer	Development Stage
Residence Inn by Marriott	129	1st Quarter 2009	The Clarkson Group	Under Construction
Hyatt Place	150	4th Quarter 2008	Corporate Realty Associates Performa	Under Construction
Proposed BJCC Hotel	120	Fall 2009	Entertainment, Inc.	Early Development
Proposed BJCC Hotel	160	Fall 2009	Entertainment, Inc.	Early Development
Proposed Old Federal Reserve Site (4-star)	236	1st Quarter 2011	Melaver, Inc.	Early Development
Holiday Inn Express	100	4th Quarter 2010	Local Developer	Early Development
Marriott Renaissance (4-star)	280	4th Quarter 2009	Harbert Realty, Concord Hospitality	Early Development
Historic AG Gaston Hotel	Unknown	Unknown	The Roberts Companies	Rumored
Proposed Old Parisian Warehouse Site	Unknown	Unknown	Shinsegae	Rumored
Proposed Hotel	300	Unknown	Franklin Haney	Rumored

The development of these hotels is expected to increase visitation to the City Center and bookings at the BJCC, prompting plans for a renovation of existing facilities and the construction of a new 65,000-seat multi-purpose center, which is expected to break ground in 2010.[6]

Several existing Downtown hotels have undergone major renovations over the last two years, including the transformation of the former Tutwiler Hotel into a Hampton Inn, and the restoration of a relic of the Jazz Age, the historic Redmont Hotel & Residences. The introduction of upscale properties will likely boost average rates for City Center hotels and help promote a safer and more attractive Downtown.

Conclusion

Operation New Birmingham's overarching goal is to bring business travelers and other visitors to Downtown Birmingham, where they can experience the pulse of the city from its heart. According to the organization's President, Michael Calvert, public and private investments in Downtown projects came close to $1 billion as of the end of 2008. CAP – City Action Partnership – has patrolled a 96-block area of Downtown since 1996. Since its implementation, crime has dropped 62% in the CAP District. Residential and commercial growth in Birmingham's City Center thus appears to be on

the right track, and the city is banking on new businesses, restaurants, entertainment venues, and the expansion of the convention center to create more room nights for local hotels. While Birmingham has some unique difficulties to overcome in the face of fiscal crisis, these positive strides put a more hospitable horizon within reach.

HVS works extensively in hotel markets spanning the southeastern U.S. For more information on how we can help you accomplish your goals, please visit http://www.hvs.com/Offices/Atlanta or call us at (678) 639-3334.

[1] *"Development Update." Operation New Birmingham, June 2008. http://www.informationbirmingham.com/planning/masterplanupdate.pdf*
[2] *Ibid.*
[3] *"City Center Class A B Office Market Survey." Operation New Birmingham, December 2008.*
[4] *"2008 Economic Analysis and Inventory of Development Projects." The Birmingham Regional Chamber of Commerce.*
[5] *www.bjcc.org*
[6] *"Development Update." Operation New Birmingham, June 2008. http://www.informationbirmingham.com/planning/masterplanupdate.pdf*