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**Downtown Huntsville Market Assessment**  
Huntsville, Alabama 35801



**Date of Research**

July 20, 2023

**Date of the Report**

September 29, 2023

**Underwriting Support By & Prepared for**

Downtown Huntsville, Inc.

Google Fiber



***File Number*** 2023-091

***240 Crystal Grove Blvd.***

***Lutz, FL 33548***

***(813) 948-0545***

***[www.gotovalue.com](http://www.gotovalue.com)***



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September 29, 2023

Mr. Robert Buddo  
Downtown Huntsville, Inc.  
P.O. Box 471  
Huntsville, Alabama 35801

Internal File Number: 2023-091

Re: **Market Assessment** to determine demand for additional office development to be located within  
Downtown Huntsville, Madison County, Alabama 35801

Dear Mr. Buddo:

At your request, Value Tech Realty Services, Inc. (VT) has completed a study of downtown Huntsville to assist the city in determining ways to solidify the mission of increased daytime population. Increased population density will provide financial support to businesses, entertainment, and cultural venues that are the foundation of downtown's attraction.

Downtown Huntsville has a daytime population that is not sufficient to effectively expand upon the existing retail, food and beverage, and entertainment venues. The limited daytime support for businesses is stunting the growth of existing retailers and is a deterrent for prospective retailers. Additional office space will expand daytime foot traffic in downtown during critical daytime hours.

Timing of the effort to expand the office component should include an immediate and long-term strategic plan. Submarkets with mixed-use components are gaining traction and siphoning businesses out of the urban core. The potential loss of tenancy downtown could continue unless more quality office space is developed. Existing and new retailers, restaurants, and businesses must have confidence that a sufficient population will exist in downtown during the daytime hours to support their capital investments. Otherwise, downtown could risk their position as the business, cultural and activity core of the region.

The office market in downtown Huntsville operates at capacity and is constrained in its ability to provide additional space to existing tenants that need expand. Without sufficient frictional vacancy, downtown has no flexibility or capacity to grow. A healthy office market operates near 10% vacancy. Downtown Huntsville's miniscule vacancy puts at risk the ability to accommodate tenants on a growth trajectory. Office space, both in quantity and quality, must be expanded.

Developing in the urban core is significantly more difficult and costly than in submarkets such as MidCity or Cummings Research Park. The city's investment into these submarkets has established them as viable development locations and has ensured their long-term viability. The City of Huntsville faces a challenging environment to bring development viability into the downtown core due to the elevated costs associated with construction and office building operations.

Peer cities were evaluated that faced similar challenges and many were able to utilize various innovative incentive programs to bridge the gap between construction costs and financially viable office rates. The peer cities noted that their incentive packages were off-set by the long-term economic benefits accruing to the city through an enhanced tax base both in terms of sales and property taxes.

Peer cities noted the addition of quality office space attracted national and regional tenants from outside their local markets. These tenants typically paid above local market rates for best-in-class space. Huntsville currently lacks sufficient Class A office space and is not able to vie for these opportunities. Despite Huntsville's robust economy and highly educated population attracting a significant inflow of businesses to the region, companies are not able to be captured downtown due to the lack of office supply and must locate in other submarkets. Incentivizing and encouraging Class A office space will enable the city to compete for, and capture these national and regional tenants.

Increased office space will expand the downtown population and suspend the risk of an outward flow of businesses and tenants. Office demand for the urban core was estimated at 343,020, 461,082, and 636,088 square feet based on conservative, moderate and aggressive projections, respectively.

Huntsville has a unique business environment dominated by military and federal contractors including those in support of Redstone Arsenal's missions. Businesses locating downtown are comprised primarily of professional, banking, legal, accounting, and wealth management services. The conservative to moderate range of the office space estimate provides the most realistic goal for the next five-year period and reduces occupancy risk in the current economic environment.

Office development has fierce headwinds in achieving financial viability. A variety of public and private partnerships, incentives, and agreements need to be evaluated and adopted as necessary to support office developments currently in the planning and development process. The success of the current pipeline office projects will establish the downtown core as a viable business center and generate additional daytime traffic. If these pipeline projects falter or fail, Downtown Huntsville will miss its opportunity to rein as the business and community center for its constituents, workers, and visitors.

Successful downtowns are focused on delivering experiences and not just office space. Office space and the surrounding land uses are the place where community among workers is created. The city has the opportunity to complement the office building environment by expanding the attractiveness of working downtown. Continuing to support development of complementary land uses that host a variety of walkable experiences including social, recreational, cultural, and entertainment will amplify the success of new office buildings. These synergistic land uses are the competitive discriminator that cannot be match by competing office nodes in Madison County.

Downtown Huntsville has a competitive advantage relative to other office nodes in the region based on the diversity of walkable opportunities for activities and outdoor experiences. Greenways, parks, plazas, and tree-lined trails link the various economic nodes. These attributes are cited as reasons tenants seek downtown for their businesses. Further, business owners noted that their downtown location is a competitive advantage in the recruitment and retention of employees. The public offerings by the city must be maintained to ensure synergy is created among the various stakeholders to maximize available activities for the daytime population.

Downtown Huntsville's park and greenspace requirements will align or surpass peer cities once the Pedestrian Access and Redevelopment Corridor (PARC) is completed. Critical downtown sites proximate these green spaces should be heavily incentivized to lean into mixed-use and office land uses as minor additions to green spaces will have marginal impact on increasing downtown foot traffic and presence.

City owned and controlled land parcels will likely require a highest and best use analyses in order to determine their most viable productive use with the greatest return to the constituents. Mixed-use designs that incorporate large plazas, gathering areas, and public spaces can be incorporated into high-rise structures that produce a financial return to the city while providing easily accessible people-focused spaces.

Policies can immediately be changed to remove current barriers constricting downtown activity. Some of these include the utilization of more efficient parking management systems, expanding the availability of affordable parking for businesses and visitors, adopting more favorable signage policies for office buildings, improving street and directional signs, and establishing higher safety protocols across a 24/7 time-period.

Achieving the critical mass of daytime and evening population is necessary to support local businesses that provide services and entertainment drawing people, workers, and visitors downtown. This market study report provides data, information, and support that highlights key findings and recommendations. A brief executive summary is presented with the balance of the report providing details that support the findings, conclusions, and recommendations.

We appreciate the opportunity to work with Downtown Huntsville, Inc. on this study and express our sincere gratitude to the various stakeholders who provided valuable data, insights and information utilized in the analysis presented herein.

Respectfully submitted,

**VALUE TECH REALTY SERVICES, INC.**



Quintin Kauchick  
President



Kay C. Kauchick, MAI  
Chairperson

KK:QK:kw  
2023-091

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## ***Executive Summary***

Extensive research of peer cities revealed key attributes that are crucial to creating a sustainable live-work-play urban core. Downtown Huntsville has made significant strides over the last decade in encouraging synergistic land uses and mixed-use development downtown. The development of the downtown core through partnership between the governance, interested stakeholders, and private citizens has elevated the quality of life for residents, workers, and visitors. It will be of utmost importance to continue to expand and diversify downtown’s offerings that will enable near-term investments into long-term vibrancy.

### **Peer City Analysis**

Peer cities were examined both qualitatively and quantitatively throughout the course of research. Ultimately these peers served as a test of reasonableness for many of the assumptions and recommendations made throughout the course of the report. Peer cities located in the southeast and along the east coast were identified that shared key attributes and trends with Huntsville. An exhaustive list of peer cities analyzed is not provided, but the peers that were utilized the most for comparison throughout the report are provided in the table below:

<b>PEER CITIES EXAMINED</b>		
Nashville, TN	Durham, NC	Birmingham, AL
New Orleans, LA	Raleigh, NC	Tampa, FL
Greenville, SC	Chattanooga, TN	Columbus, GA



Chattanooga, TN



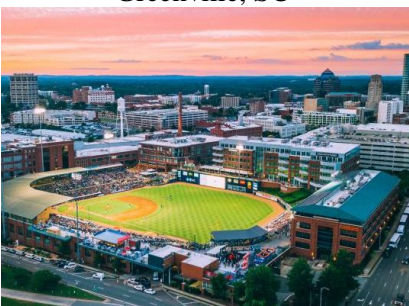
Greenville, SC



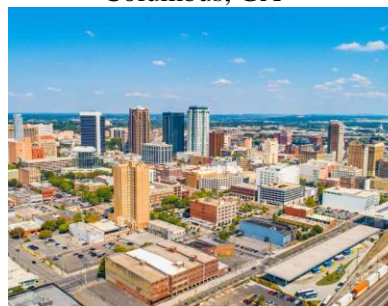
Columbus, GA



Nashville, TN



Durham, NC



Birmingham, AL

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New Orleans, LA



Raleigh, NC



Tampa, FL

Chattanooga, Tennessee is in the initial stages of its efforts to transform its urban core. A special tax zone was created in order to encourage over \$800 million in new development. Centered along its riverfront, the city has control of 300 acres of land that is earmarked for high-density development including office, hospitality, retail, residential and recreation.

Greenville, South Carolina was transformed from an old mill town into a city with a well-balanced ecosystem that continues to grow and attract new capital and investment. Having a strong and diverse urban core was the top priority for the governor and community leaders. This commitment between the public and private sector through unique development partnerships stimulated the revitalization of the central business district with far reaching economic, social, and cultural impacts that continue today. The city and stakeholders committed to a strategic plan that included the city investing in projects to ensure their viability. Alongside this effort, the city created a marketing strategy to promote the downtown in an effort to attract new businesses and increase their daytime and evening population.

Columbus, Georgia has leveraged their natural resources along the Chattahoochee River to create a vibrant downtown along a 15-mile outdoor linear park that hugs the banks of the river. The city's has invested in creating "a sense of place" with a variety of investments attracting small businesses servicing daytime and evening populace. Columbus's economic base is significantly impacted by the military providing a good comparison with Huntsville. Upon constructing a Class A office space, the city was able to attract national and regional tenants including the corporate home of Synovus who committed to occupy 120,000 square feet of the new office building that should be completed in 2024.

Nashville, Tennessee provided valuable insights into the development of the city core and the surrounding districts. Nashville is further along in its growth cycle but new office development captured young, high-wage tenants similar to the STEM professionals in Huntsville. Characteristics of new office spaces developed to meet the needs of these tenants provided the ability to attract tenants from international, national, and regional companies. Nashville's purpose in the analysis was primarily to set an upper bound on assumptions utilized.

Durham, North Carolina has a significant research park that provides a robust employment base for the residents. The city attracted developers through various incentive programs with the construction of The Novos office tower beginning in March 2022. A major financial tenant absorbed most of the building. In addition, complementary development including condominiums, rental apartments and retail followed. This city provided insight into how the urban core could succeed despite the competition from a nearby research and business park. The Novos development also demonstrated how expanding the downtown outside of a research park will diversify the types of employment opportunities in a market.

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Birmingham, Alabama provides insight into the complementary impact a medical center in the downtown core can have on office and supportive businesses. Similar to Huntsville, Birmingham has an established business center in the northern portion of the city and a medical node anchoring the southern boundary. The city has attracted rental apartments, a baseball stadium, and other venues to balance the live-work-play environment.

New Orleans, Louisiana was rebuilt after Hurricane Katrina. The city strategically planned the redevelopment and recovery of the city by identifying land uses that could provide the most economic impact. Investments in the establishment of a medical center has attractive office and residential developers. The city offers a number of economic development incentives depending on the type of project and location. This includes commercial gap financing, payments in lieu of taxes (PILOT), and Tax Incremental Financing, to name a few.

Raleigh, North Carolina is similar to Durham with proximity to a major research and business park. Raleigh provided insight into the impact of the government center in downtown and competition between the public and private sectors for development opportunities. The downtown has been expanding its live and work components in order to generate sufficient day and night-time populations to support the restaurants and entertainment venues.

Tampa, Florida provided significant insight into a downtown that experienced direct competition for a “secondary downtown” in the Westshore District. The economy is influenced by the military located southwest of downtown at MacDill Air Force Base. A major medical node is located near the urban core on Davis Island. The city had an aging office market and struggled to attract capital to investment in the urban core. A variety of city incentives combined with private investment has created a 53-acre Water Street development. The \$3 billion development is planned for 9 million square feet of residential (3,500 units), commercial (2 million square feet of office), hospitality (650 hotel rooms), educational and entertainment spaces (1 million square feet). The project required \$200 million in infrastructure, roads, public utilities, and various central cooling facilities. The first phase (about 50% of the project) is complete with an economic impact of \$520 million and the creation of 6,000 permanent jobs. The tax revenue is estimated for Phase I at \$8.6 million for the city and \$15 million for the state in sales revenue. This does not take into consideration the significant increase in property values.

Once quality space was available, new tenants from outside the market were captured. Law and architectural firms as well as Relia Quest cybersecurity firm (120,000 square feet) have lease rates from \$50+ per square foot, which is significantly above the market average.

Other cities were also examined and provided additional insights into demand. The peer cities presented have the best comparable data. This could have included general size of the city and region, military-influence, proximity to a research park, medical node near the urban core, competition for office tenants from emerging submarkets, ability to attract tenants from outside their market once sufficient Class A office space was available and/or recent success with incentives provided by the city to attract and encourage office and mixed-use development. Larger cities were typically considered as an “upper bound” in the analysis and would function as a test of reasonableness.

Factors such as employment drivers, demographic growth, economic growth, and numerous others were analyzed from these peer cities. Throughout the demand analysis ratios and growth metrics from these peer cities were looked at as a test of reasonableness for assumptions that were applied to Huntsville.



**Office Space Demand**

The urban core is out of balance with office demand exceeding supply. This relates to both square footage and quality. Conservative, moderate, and aggressive projections based on peer cities noted demand is sufficient to accommodate the current office projects planned and proposed with ample excess demand to support additional developments in the near future.

<b>HUNTSVILLE OFFICE NET DEMAND CALCULATION 2023 - 2028</b>				
		<i>Conservative</i>	<i>Moderate</i>	<i>Aggressive</i>
<b>Peer Alignment</b>				
A. Total Delivered Market Office Square Feet 2013-2022	2,498,458	2,498,458	2,498,458	2,498,458
B. Total Delivered Downtown Office Square Feet 2013-2022	306,790	306,790	306,790	306,790
C. Peer City Ratio Alignment	12% (Current)	15%	20%	
<b>D. Peer Alignment Adjustment (A*C)-B</b>	<b>0</b>	<b>67,979</b>	<b>192,902</b>	
<b>Future Office Demand</b>				
E. Projected Downtown Job Growth 2023-2028	3,339	3,339	3,339	3,339
F. Net Rentable Area (NRA) / Job	70	85	100	
<b>G. Total Required New CBD Office Space (E*F)</b>	<b>233,720</b>	<b>283,803</b>	<b>333,886</b>	
<b>Balanced Market Calculation</b>				
H. Current Vacant Downtown Office Space	153,000	153,000	153,000	153,000
I. Balanced Market Office Vacancy S.F.	300,000	300,000	300,000	300,000
<b>J. Deficit Downtown Office Space (Excess Demand)</b>	<b>147,000</b>	<b>147,000</b>	<b>147,000</b>	
<b>Future Office Supply</b>				
<b>K. Proposed &amp; Under Construction Office SF</b>	<b>-37,700</b>	<b>-37,700</b>	<b>-37,700</b>	
<b>2028 Office Space Demand (D+G+J+K)</b>	<b>343,020</b>	<b>461,082</b>	<b>636,088</b>	

Huntsville has a unique business environment dominated by military and federal contractors including those in support of Redstone Arsenal’s missions. Cummings Research Park (CRP) and Redstone Gateway (Gateway) located at the entrance to Redstone Arsenal have locational advantages in attracting and accommodating businesses with ties to the military and federal activities.

Downtown Huntsville has competitive attributes that are sought by businesses, education-oriented programs, universities, trades, and entrepreneurs. Downtown tenants have leveraged the various attributes downtown has to offer to attract employees and clients and thereby increase foot traffic. Downtown’s attraction will be enhanced with the completion of PARC and other initiatives.

The defense industry is a minor component of overall downtown business. There is minimal risk that Class A office development in the urban core would siphon demand from Cummings Research Park where the city is heavily invested. No economic node in the region can currently compete on the scale of offerings available downtown. However, there are submarkets in the region that are gaining traction and could overtake downtown’s appeal.



**Lease Rates**

Office rates in the urban core are constrained by the quality and quantity of space offered, signage ordinance restrictions, and the location and allocation of parking space. Downtown can leverage its competitive attributes to align market office leases closer to peer cities. Leveraging the premium attributes offered by the downtown location can translate into higher lease rates but this is not sufficient to bridge the current gap created by high construction costs and the difficulty developing within an urban core.

Downtown Huntsville can leverage the advantages of a walkable downtown environment to potential tenants over submarket office nodes. A downtown location is currently a competitive discriminator for local businesses when compared to other submarkets in Madison County that are car-dependent. Continuing to enhance downtown’s vibrancy through increased density and events will further drive premium pricing for new office development.

Downtown locations across peer cities command higher lease rates than Huntsville. The following chart illustrates the gap between Huntsville’s current lease rates relative to peer cities:

<b>LEASE DIFFERENTIAL PEER CITIES VS HUNTSVILLE</b>			
Peer City	<i>Class A Built 2020+</i>	<i>Difference</i>	<i>% Difference</i>
Huntsville (Renovated Class B)	\$29.00		
Nashville	\$43.00	\$14.00	48.3%
Tampa	\$58.00	\$29.00	100.0%
Crystal City	\$47.00	\$18.00	62.1%
Raleigh	\$41.00	\$12.00	41.4%

Tampa’s lease rates reflect newly constructed office buildings that have locations and quality superior to the other markets. Office leases are incredibly diverse in their structure. Class A rates in the table above generally reflect triple net pricing in the market for a Class A office space.

**Office Development Risk**

Discussions with developers and landowners provided key insights into the cost of office development and the Feasibility Rent required to support new office development. The Feasibility Rent is calculated based on the following development assumptions:

<b>NEW CONSTRUCTION COST AND INVESTMENT RETURN</b>		
	<i>\$/SF</i>	<i>Total \$ Cost For 250,000 SF</i>
Building	\$350	\$87,500,000
Land, Sitework	\$65	\$16,250,000
Parking Deck, \$35,000 Per Space	\$48	\$12,000,000
Design, Legal, Development, Financial	\$101	\$25,294,415
<b>Total</b>	<b>\$564</b>	<b>\$141,044,415</b>
<b>Investment Return on Cost</b>		<b>7.50%</b>
<b>Feasibility Rent NNN</b>		<b>\$42.50</b>
<b>Feasibility Rent Full Service</b>		<b>\$50.50</b>

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The feasibility rent will vary depending on the height of the building, parking requirements, site conditions, and building materials. Various proformas provided by developers indicated a feasibility rent of \$38 to \$42.50 per square foot, triple net, in current market conditions. From a lease perspective, another \$7.00 to \$8.00 per square foot would be necessary to cover common area maintenance charges. Full-service rent is also provided in the previous table to demonstrate the cost associated with the various potential lease structures.

Classification of office space between A, B, and C is highly subjective and market dependent. As Huntsville delivers high quality and mixed-use office space the Class A office space of today will be redefined for the Huntsville market. Some space that may be considered Class A in today's market will be reclassified as modern office products are brought to market. Peer cities that have modern Class A space typically command \$9-\$11 per square foot premium over Class B. The differences are provided in the table that follows:

<b>RENT PREMIUM CLASS A VS B OFFICESPACE</b>				
	<2020	2020+		
	Class B - Full Service	Class A - Full Service	Premium	Difference %
Nashville	\$34.00	\$43.00	\$9.00	26.5%
Tampa	\$37.00	\$58.00	\$21.00	56.8%
Crystal City	\$36.00	\$47.00	\$11.00	30.6%
Raleigh	\$31.00	\$41.00	\$10.00	32.3%
Greenville	\$25.00	\$35.00	\$10.00	40.0%
Huntsville (Renovated Class B)	\$25.00	\$30.00	\$4.00	16.0%

Source: CoStar, Value Tech Realty Services, Inc.

Office development in Huntsville requires a \$38.00 to \$42.50 feasibility rent (triple net) or \$46.00 to \$50.50 full-service. Class A space in peer cities and Huntsville is provided on a full-service basis.

As discussed previously, the region's economy is anchored by military- and federal- related corporations typically operating on fixed budgets. Profit margins of these companies are thin. Thus, some incentives and support by the city, county, and/or state will be required to bridge the financial gap to ensure downtown office development occurs and can be financially viable.

### **Public Support and Incentives**

The city has provided some support for new development through an incentive that covers the upfront cost to build a parking deck that is eventually reimbursed back to the city. Under today's economic environment, the financial structure of this incentive should be reevaluated to increase its effectiveness. Extending the reimbursement timeline until a building is near stabilized occupancy would reduce some financial risk during the initial lease-up when capital requirements for tenant improvements (TI) and marketing are at their highest.

Additional incentives have been identified that the city should consider in the near term to support the new office developments underway and proposed. These could include free or reduced parking costs for employees, covering off-site infrastructure costs, supplementing tree and landscape requirements along public roads and walkways, long-term land leases, and the utilization of abatements; to name a few.

The creation of a new Tax Incentive Finance (TIF) district to support offsite improvements and streetscapes would ease pressure on the Feasibility Rent. Stakeholders provided an estimate of the dollar per square foot savings these incentives would have on rent:

<b>VALUE INCENTIVES</b>	
<b>Incentive</b>	<b>\$/ SF</b>
Free / Subsidized Parking	\$2.50
Offsite Improvements with TIF	\$1.30
Source: Stakeholders, Developers	

An additional incentive to consider is the ability to lease city-owned land for the purposes of office development. The upfront project savings would range between 10% to 15% of the total development cost.



## ***Critical Downtown Attributes***

Critical components of downtown must be preserved, enhanced, and expanded. A few key attributes are briefly presented and discussed.

### **Placemaking**

Downtown Huntsville's policy of placemaking has prioritized the human experience by creating vibrant public spaces and encouraging synergistic land uses. Long-term planning to ensure new development inspires and promotes social interaction and cultural exchange is key to residents, workers, and visitors. The work the city has done to improve the quality of life downtown has caused individuals to return to the city, extend their time in the urban center, and expend money in support of businesses and venues.

### **Maintaining Safety**

Huntsville has reduced overall crime throughout the last decade and has created trails and walkways that are pedestrian friendly. Through significant effort by the city, Huntsville is now the safest major metropolitan area in Alabama. As the city's urban density increases, the city's continued focus on curbing crime will be critical. Fear of crime is a major impediment to the ability to revitalize or expand land uses and activity in a downtown setting. People will hesitate to walk on downtown streets, through the park or stroll along activity centers if there is a fear of crime. This can be reduced and controlled by dense and compact multi-use development and police patrol activities that provide considerable citizen contact and control of crime. Secured access and street patrols on foot, bike, and car are all required throughout the day, evening, and night. Additionally, proactively increasing police staffing levels should be evaluated as density increases. A tarnished public safety reputation is exceedingly challenging to revert once established.

### **Robust Parking and Directional Signs**

Parking was cited as one of the primary barriers to attracting businesses and people downtown. Enhancements to consider include the implementation of additional technology and innovative management tools to maximize the usage of available parking spots. Equipping lots with parking guidance signs, utilizing flexible space allotments to businesses, and improved signage to clearly mark proper egress and ingress will further modernize parking.

The cost of parking requires re-evaluation. Reduced parking rates can generate higher revenues through more robust parking management systems. Free parking in remote lots as well as during prime patronizing time slots will provide a financial incentive for visitation.

Directional signage requires significant enhancement. Understandable and repetitive directional signs will reduce circulating traffic congestion by removing confusion on destination locations.

### **Prominent Company Signage Expansion**

Current signage regulations in the city are too restrictive and have been cited as one of the primary deterrents for companies leasing space downtown. Prominent building signage is critical to attracting and retaining office tenants. Signage increases company brand recognition and exposure is a form of advertising. Re-evaluation of the signage regulations with knowledgeable stakeholders is essential. This discussion should include signage on the building façade, monument, digital opportunities, and street level.

### **Downtown Development Patterns**

Huntsville has made progress with the walkability component of its urban center, but continuation of the effort is necessary. A pedestrian-friendly, walkable environment is key to enhanced activity. Walkable environments that include parking close to destinations, interesting streetscape features, conversation areas, outdoor dining and landscaping are all elements noted in vibrant cities. Future office developments should be encouraged to provide street-level designs that tie together into a cohesive district with common themes and scale. Outdoor seating within plazas and along sidewalks, similar covered awnings with appropriate lighting for safety will establish a sense of place for each node within the city.

### **Expand Opportunities for Schools and Education**

Downtowns can capture the new trend in where education is offered. Education is evolving across all grade levels including advanced degrees and specialized training. Colleges offer classes in multiple locations including in various states and cities. Specialized training is offered in most industries. Charter schools are opening in urban centers providing residents choices in where and how education is obtained. Huntsville offers vast amenities that can be leveraged to attract education-oriented tenants downtown. The city has attracted some education-oriented tenants. This is a highly desirable tenant for an urban environment. An aggressive approach to securing additional education and schools downtown is recommended.

### **Pedestrian Access and Redevelopment Corridor (PARC)**

The city's Pedestrian Access and Redevelopment Corridor (PARC) aligns with other successful cities where PARC-like projects anchor the city's periphery and link the core with other commercial, retail, residential and recreational districts. Complementary land uses supporting PARC will be a critical component to increasing daytime activity downtown.

### **Community Engagement**

The City of Huntsville has a significant online presence through various websites and social media platforms to inform individuals of events. To further drive community interaction and engagement some peer cities have established QR codes, flyers, and billboards that notify the public of these online platforms. Greater awareness of events and promotions is paramount for increasing foot traffic.

## ***Certificate of Market Assessment***

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and is our personal, unbiased professional analyses, opinions, and conclusions.
- We have no present or prospective interest in the subject of this report, and we have no personal interest or bias with respect to the parties involved.
- Our compensation is not contingent upon the reporting of a predetermined result that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event.
- This engagement is a market and economic analysis of the office dynamics of the defined area and is not an appraisal or appraisal related service.
- Quintin Kauchick and Kay C. Kauchick, MAI conducted a physical inspection of the market and the comparable peer cities indicated.

### **VALUE TECH REALTY SERVICES, INC.**



Quintin Kauchick  
President



Kay Kauchick, MAI  
Chairperson

## Definitions

The definitions included in this section have been extracted, solely or in combination, from definitions and descriptions.

Office space classifications range from Class A to Class C. While it is typically more art than science when it comes to classifying a building, there are parameters that come into play to form a justification for classifying a building. These parameters or criteria can include age of the building, location, accessibility, amenities, technology capabilities, market perception, HVAC, and finishes. Since real estate varies greatly from market to market, a Class A building in a mid-sized city may be a Class B building in a larger metro.

### Class A

This class of office is reserved for the most prestigious buildings in a metropolitan area. These buildings command the highest rents. Qualities and examples of Class A office space are provided below:

- New and modern facilities with high ceilings, natural light, and efficient large floor plates;
- LEED certified and high-quality construction. More elevators and modernized HVAC / Utilities;
- Modern amenities including daycare, showers, bike storage, maintenance staff, help desks;
- Mixed-use. Residential component with strip retail that can service staff during day and night (restaurants, coffee, dry cleaners, etc.);
- Modern technological infrastructure includes the latest in security and communication systems.

### Class B

This class of office space is typically 10-20 years old. This office space will typically be the bulk of the office space in a given market. In many cases, Class B buildings can be returned to Class A- with substantial renovations. Mid-market clients and end users, such as smaller local businesses, will be the primary tenants in these buildings. Qualities and examples of Class B office space are provided below:

- Well maintained and functional for smaller businesses, but significant renovations required for larger users;
- Dated or lacking modern features and amenities;
- Few elevators and dated public spaces including bathrooms;
- Low grade aesthetics such as tile, ceiling panels, and carpet.

### Tenant

One who has the occupation or temporary possession of lands or tenements of another. One who rents or leases from a landlord.

### Triple Net (NNN)

A triple net lease (triple-net or NNN) is a lease agreement on a property whereby the tenant or lessee promises to pay all the expenses of the property, including real estate taxes, building insurance, and maintenance. These expenses are in addition to the cost of rent and utilities.

### Tenant Improvements (TI)

In real estate, tenant improvements, or leasehold improvements, are any changes or repairs that a landlord makes to the property as a part of the lease agreement. These changes are typically made in order to configure the space for any particular tenant.



**Central Business District (CBD)**

A central business district (CBD) is defined as the main area of a city or town that is devoted to commerce and business. The CBD is typically the financial center of a city and may be one of the more densely developed, vibrant and bustling areas. It is usually home to landmarks and other unique features. Often, government-related activities are concentrated in the CBD.

**Per Square Foot (PSF)**

Per square foot is the area inside a square that measures one foot per side. Area is equal to length multiplied by width.

**Price Per Square Foot**

Price per square foot is a calculation dividing the price or lease by the square footage of the area being purchased or leased.

**Effective Date of the Market Assessment**

The date at which the market conclusion applies, which may or may not be the date of inspection; the date of the market conditions that provide the context for the market opinion.

**Gross Building Area (GBA)**

The total floor area of a building, including below-grade space but excluding unenclosed areas; measured from the exterior of the walls. (*Dictionary*)

**Absorption Period**

A period of time necessary to lease the property to a stabilized level typically considered 90%.

**Market Study**

A macroeconomic analysis that examines the general market conditions of supply, demand, and pricing or the demographics of demand for a specific area or property type. A market study may also include analyses of construction and absorption trends. A market study may also be the process of determining the general market conditions affecting the property to be marketed, including historical and potential levels of supply and demand.

**Marketability Study**

A process that investigates how a particular piece of property will be absorbed, sold, or leased under current or anticipated market conditions; includes a market study or analysis of the general class of property being studied. A marketability study can also be a microeconomic study that examines the marketability of a given property or class of properties, usually focusing on the market segment(s) in which the property is likely to generate demand. Marketability studies are useful in determining a specific highest and best use, testing development proposals, and projecting an appropriate tenant mix.

## ***General Limiting Conditions***

- Possession of this report, or a copy thereof, does not carry with it the right of publication.
- The market analyst herein by reason of this report is not required to give further consultation, testimony, or be in attendance in court with reference to the project or assignment in question unless arrangements have been previously made.
- Neither all nor any part of the contents of this report (especially any conclusions as to market support, the identity of the market analyst or that with which the market analyst is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the Value Tech Realty Services, Inc. and Downtown Huntsville, Inc.

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## ***Scope of Work***

Downtown Huntsville continues to attract developers and investors into the downtown core creating employment, supplying housing, and adding to the diversity of land uses. The synergy has spurred the interest in the city to plan for the expansion of the daytime population including the development of additional office space. Value Tech Realty Services, Inc. (VT) is assisting city stakeholders in their efforts by evaluating successful strategies utilized by other cities. The Scope of Work to achieve this goal is provided:

### **Scope of Work**

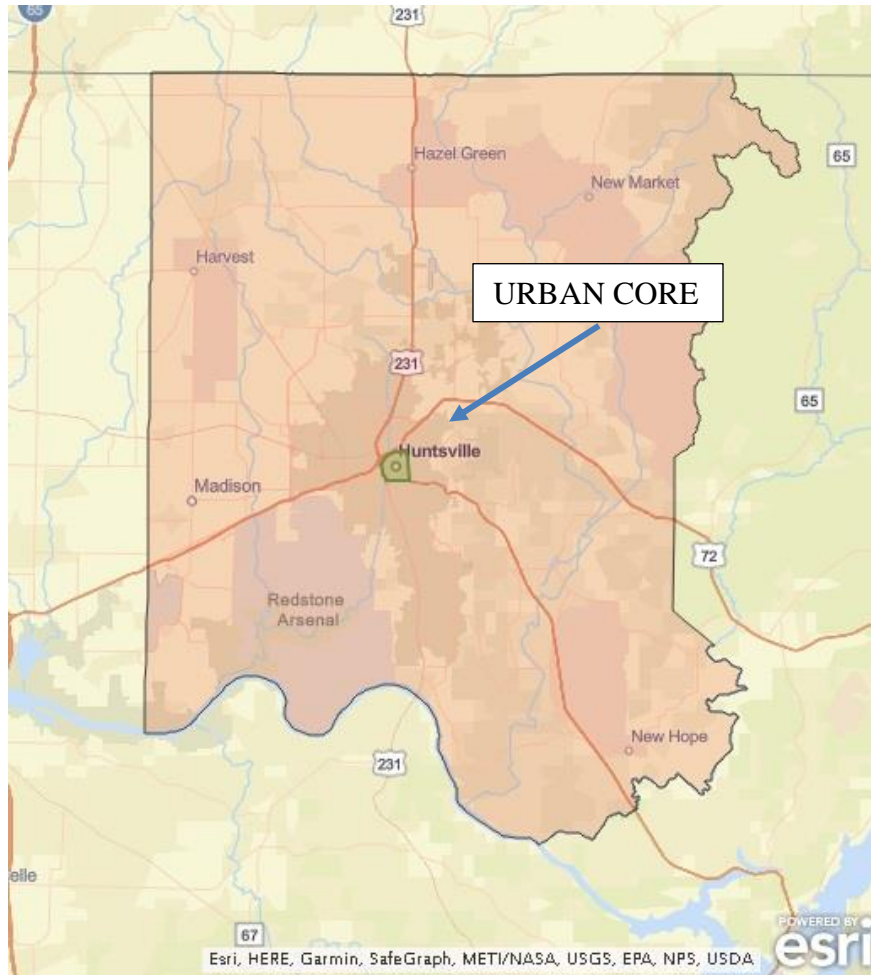
1. Conduct a historical review of development trends in Huntsville to quantify the current state of the downtown office market;
2. Obtain current development pipeline activity;
3. Evaluate the tenant profile currently captured;
4. Compare the current downtown tenant profile with new tenancy trends in urban centers;
5. Secure information on the potential loss of tenants and/or gain of tenants, their characteristics and motivation for the departure from, or movement into, the urban center;
6. Evaluate the current availability of space by size and quality;
7. Examine support services and parking to determine barriers that influence the ability to secure tenants and/or maintaining a viable office market;
8. Evaluate other downtown markets to discern those that have and/or are transforming to meet the needs of the changing office market;
9. Provide a projection of office demand that is supportable and should be considered for downtown;
10. Provide guidance with the type of tenant(s) profile(s) that should be sought;
11. Evaluate current and potential lease rates for the urban core relative to the development of a Class A office project;
12. Provide a discussion of key attributes that support a vibrant office core and the need for city and stakeholder involvement to preserve, expand and enhance these critical characteristics;
13. Prepare a written report that documents our findings.

### **Intended Users**

This report is to be used by Downtown Huntsville, Inc.

## ***Office Market Overview-Madison County***

The office market overview section provides base-line information on the office market within the county and in the urban core. The urban core is influenced by competing office nodes. An understanding of the trends impacting the office market within the county overall provides insight into the strategy for how downtown can compete.



### **Macro Market Overview – Madison County**

The macro market was analyzed based on primary research of the entire region by Value Tech as well as with secondary reliance on the information provided by CoStar. The first portion of this section provides general demographic and economic trends within the county. The second portion provides details on the office market.

### **Demographic and Economic Trends**

The information in this section was obtained through the U.S. Census Bureau and Esri. Madison County continues to experience positive population and household growth as a continuation of employment

opportunities and low unemployment require the in migration of new households. This is evidenced by the following:

<b>MADISON COUNTY POPULATION AND HOUSEHOLD TRENDS</b>					
<i>Year</i>	<i>Households</i>	<i>Household CAGR</i>	<i>Average HH Size</i>	<i>Population</i>	<i>Population CAGR</i>
2010	134,700	---	2.43	334,811	---
2023	166,532	1.6%	2.38	406,026	1.5%
2028	175,439	1.0%	2.35	422,116	0.8%

Source: Esri

Total population and the total number of households have increased over the past 13 years and are projected to increase over the next five years.

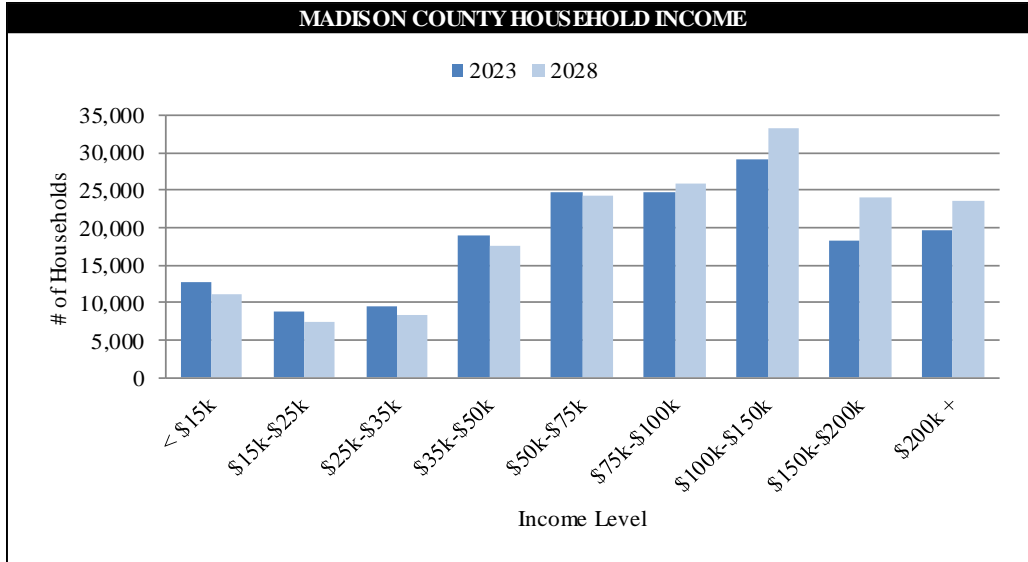
**Household Income**

Households by income in Madison County are provided:

<b>MADISON COUNTY HOUSEHOLD INCOME</b>		
<i>Household Income Level</i>	<i>2023</i>	<i>2028</i>
< \$15,000	12,704	11,213
\$15,000 - \$24,999	8,930	7,508
\$25,000 - \$34,999	9,503	8,340
\$35,000 - \$49,999	18,907	17,465
\$50,000 - \$74,999	24,765	24,351
\$75,000 - \$99,999	24,666	25,856
\$100,000 - \$149,999	29,193	33,215
\$150,000 - \$199,999	18,190	23,974
\$200,000+	19,674	23,517
<b>Median Household Income</b>	<b>\$81,968</b>	<b>\$91,736</b>
<b>Average Household Income</b>	<b>\$115,308</b>	<b>\$130,352</b>

Source: Esri

More than 69.9% of households earn more than \$50,000 per year. Households are generally projected to earn higher incomes by 2028. The graph of income distribution in Madison County is provided:



**Employment Trends**

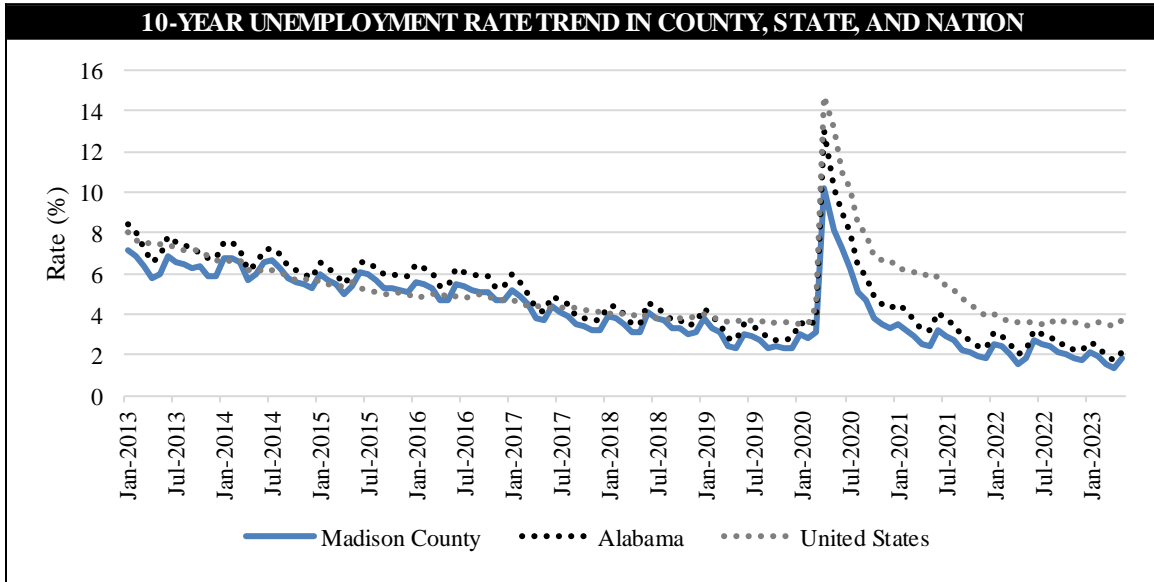
The civilian labor force is defined as all employed or unemployed persons 16+ years of age who are actively looking for work and available to accept employment. Persons in the Armed Forces or within institutional settings such as prisons, nursing homes, etc. are not counted within the civilian labor force. The trend in employment is provided:

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT DATA IN MADISON COUNTY				
Year	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2023 YTD*	204,877	201,251	3,626	1.8%
2022	199,231	194,989	4,242	2.1%
2021	193,877	188,817	5,060	2.6%
2020	189,778	180,147	9,631	5.1%
2019	187,839	182,702	5,137	2.7%
2018	183,468	177,115	6,353	3.5%
2017	177,879	170,808	7,071	4.0%
2016	172,125	163,288	8,837	5.1%
2015	170,473	161,071	9,402	5.5%
2014	170,377	159,923	10,454	6.1%
2013	171,178	160,213	10,965	6.4%

Source: Bureau of Labor Statistics  
 YTD\* 2023 consists of data through May 2023; the data is not seasonally adjusted.

The unemployment rate in Madison County has been decreasing over the past several years, despite that the labor force is increasing. Unemployment is at historically low levels reflecting a competitive labor market. Employers are heavily recruiting individuals from outside of Madison County to fill their labor needs.

The county’s unemployment rate compared to the state and national unemployment rates over the past 10 years is provided:



Madison County’s unemployment rate has generally mirrored the state and national trend over the past 10 years. As of May 2023, Madison County’s unemployment rate of 1.8% was lower than the state unemployment rate of 2.1%, and the national unemployment rate of 3.7%.

At-place employment refers to jobs that are filled and located within the same county. The trend in the market is presented:

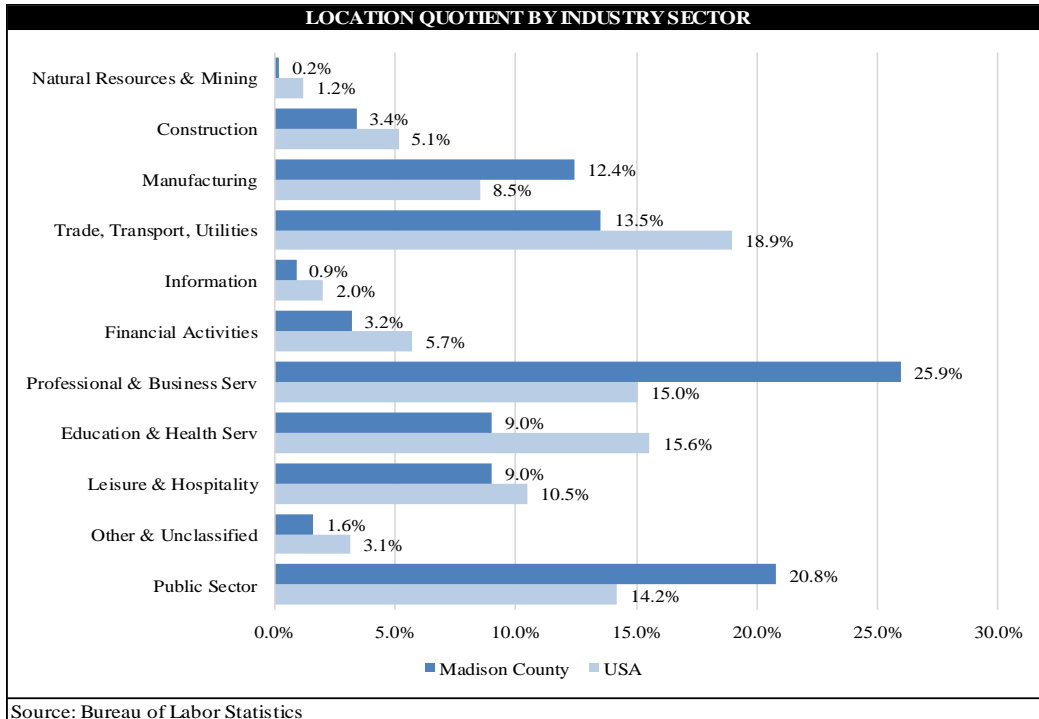
AT-PLACE EMPLOYMENT IN MADISON COUNTY			
Year	Employment	Change	Percent
2022 YTD*	220,995	10,944	5.2%
2021	210,051	7,521	3.7%
2020	202,530	-3,603	-1.7%
2019	206,133	5,794	2.9%
2018	200,339	4,637	2.4%
2017	195,702	4,024	2.1%
2016	191,678	4,957	2.7%
2015	186,721	4,091	2.2%
2014	182,630	1,122	0.6%
2013	181,508	3,066	1.7%
2012	178,442	-	-

\*YTD data is provided through Ann. 2022  
Source: Bureau of Labor Statistics

The trend in the market was positive through 2019 as employment increased. Though there was a drop in at-place employment in 2020 due to the impact of the COVID-19 pandemic, at-place employment has since increased to record levels.

Location Quotients (LQ) compare the concentration of employment in an industry within a specific area to the concentration of employment in that industry nationwide. This measurement helps understand the local

economy’s reliance on a particular industry. The LQs for industry sectors in Madison County are provided below:



The professional and business services industry, the manufacturing industry, and the public sector play notably larger roles in the local economy than in the national economy.

Madison County lies within Alabama Region 1 Workforce Council, which includes Franklin, Colbert, Cullan, De Kalb, Jackson, Lauderdale, Lawrence, Limestone, Marion, Marshall, Morgan, Winston, and Madison Counties.

The following chart provides the total job growth and growth for the largest occupational categories in Region 1 through 2030:

REGION 1 LONG-TERM OCCUPATIONAL PROJECTIONS				
Occupation	2020	2030	Change #	Change %
Production Occupation	65,440	71,490	6,050	9.2%
Office and Administrative Support Occupations	57,960	56,950	-1,010	-1.7%
Sales and Related Occupations	48,820	49,530	710	1.5%
Transportation and Material Moving Occupations	44,570	48,600	4,030	9.0%
Food Preparation and Serving Related Occupations	37,840	40,390	2,550	6.7%
Management Occupations	31,050	33,410	2,360	7.6%
Healthcare Practitioners and Technical Occupations	27,410	30,800	3,390	12.4%
Business and Financial Operations Occupations	26,450	28,940	2,490	9.4%
Education, Training, and Library Occupations	23,550	25,410	1,860	7.9%
Architecture and Engineering Occupations	23,420	25,920	2,500	10.7%
<b>All Occupations</b>	<b>529,300</b>	<b>567,780</b>	<b>38,480</b>	<b>7.3%</b>

Source: Alabama Department of Labor

Jobs are projected to increase by 7.3% for Region 1 between 2020 and 2030. This amounts to an increase of over 38,000 total job openings. Production occupations, office and administrative support occupations,

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and sales and related occupations were the largest categories in 2020 and are expected to remain the largest through 2030.

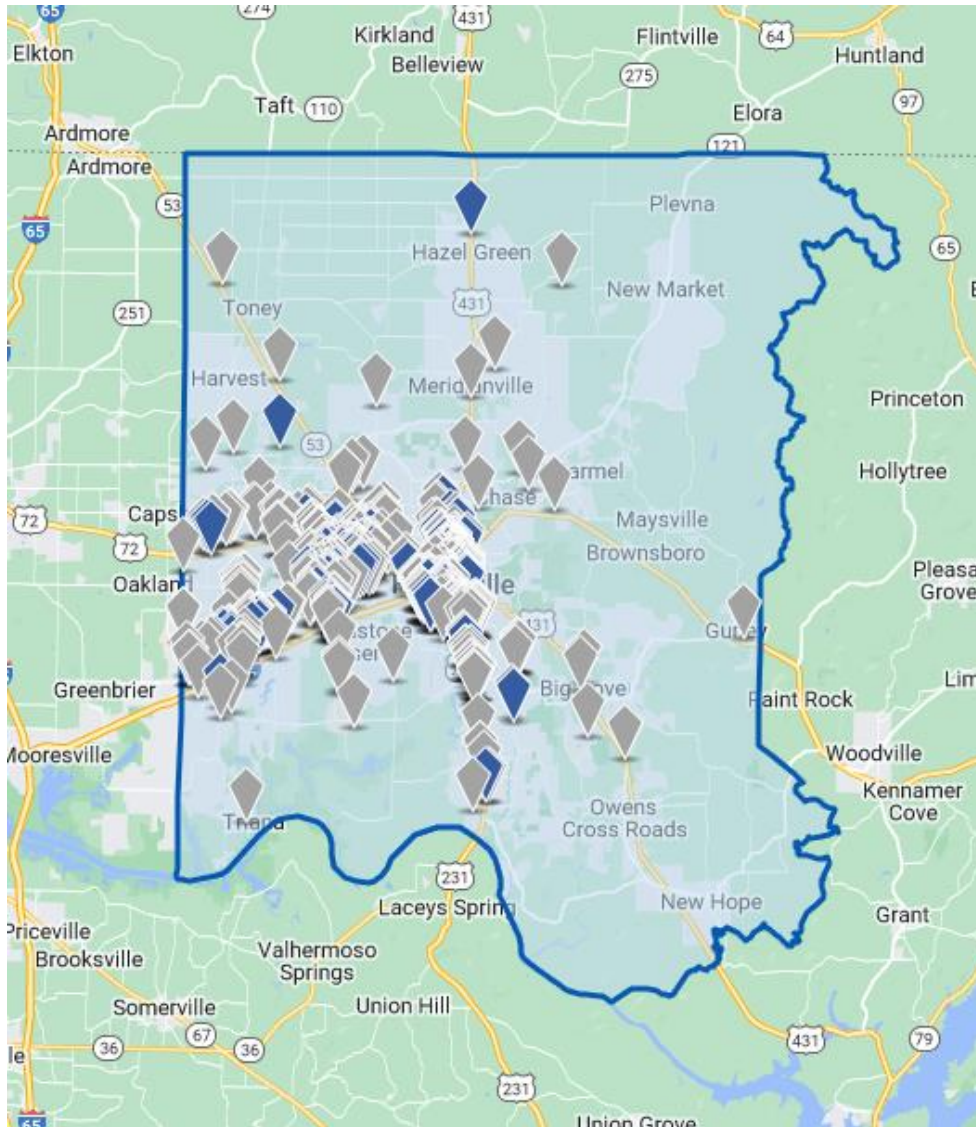
**Summary**

Madison County has a strong, diversified and expanding economy. Unemployment is at record lows requiring the in migration of workers to fill job opportunities. Additional workers have put pressure on the office market that is already under-supplied. The economy is projected to continue along a strong growth trajectory over the next five years. Therefore, additional office development is required to achieve a balanced market now, and into the near future.



## ***Madison County Office Market***

A map of all office buildings available in Madison County (5,000+ S.F.) is provided:



Military and Federal buildings located within Redstone Arsenal may be depicted but are not included in the analysis.

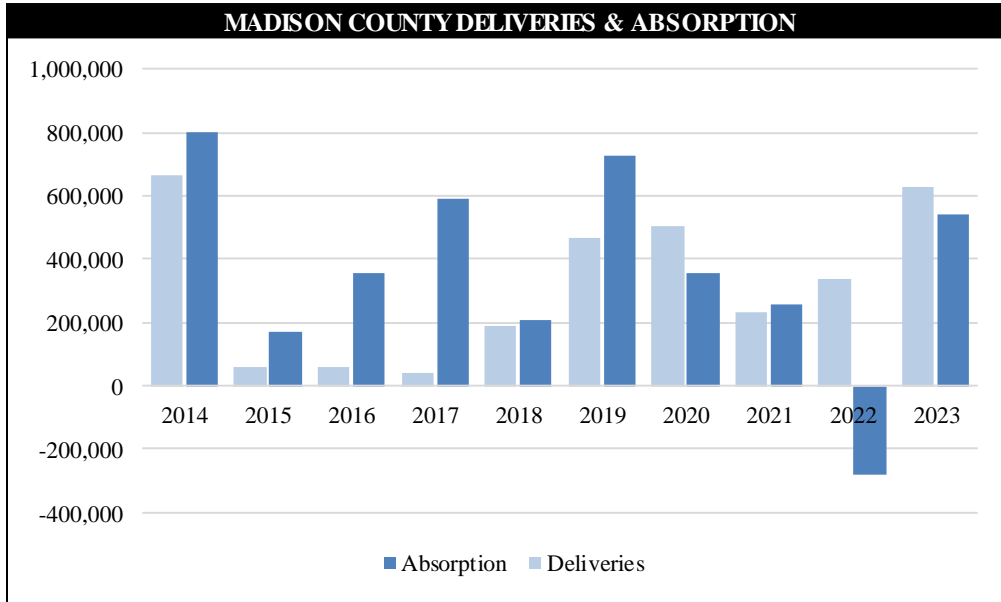
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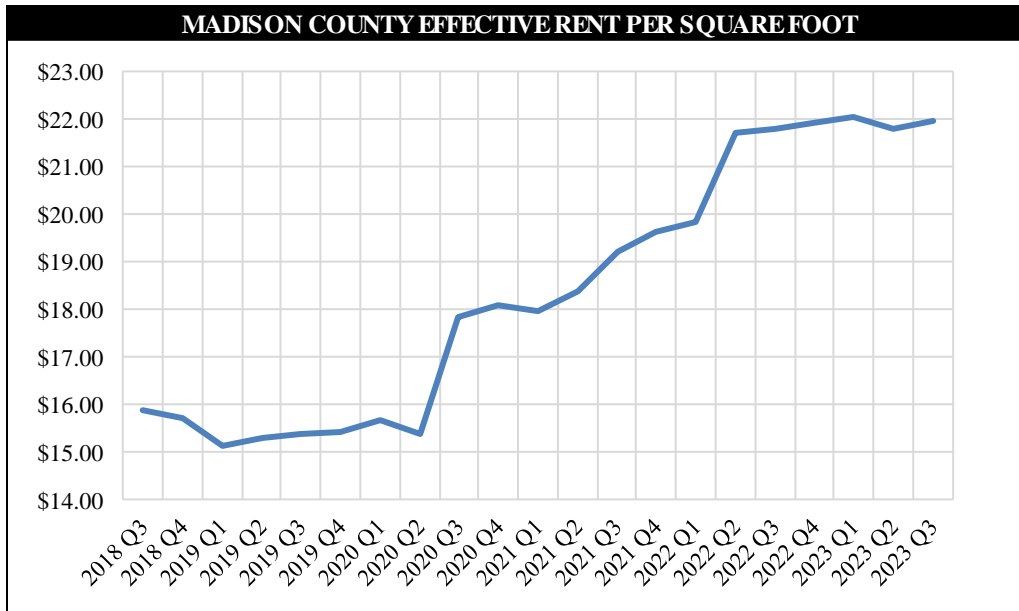
The trend in absorption and deliveries is provided:



Source: CoStar

Over the past four quarters (through 2023 Q3), 729,042 square feet of were delivered in the macro market, compared to an average of 447,287 square feet delivered annually over the past five years. Over the past four quarters, 526,694 square feet were absorbed, compared to an average of 329,333 square feet absorbed annually over the past five years. Redstone Gateway’s delivery had a noticeable impact on Cummings Research Park in 2022 as some companies relocated to the new office buildings. Many of these vacated offices were quickly absorbed by the market in the latter half of 2022 and beginning of 2023.

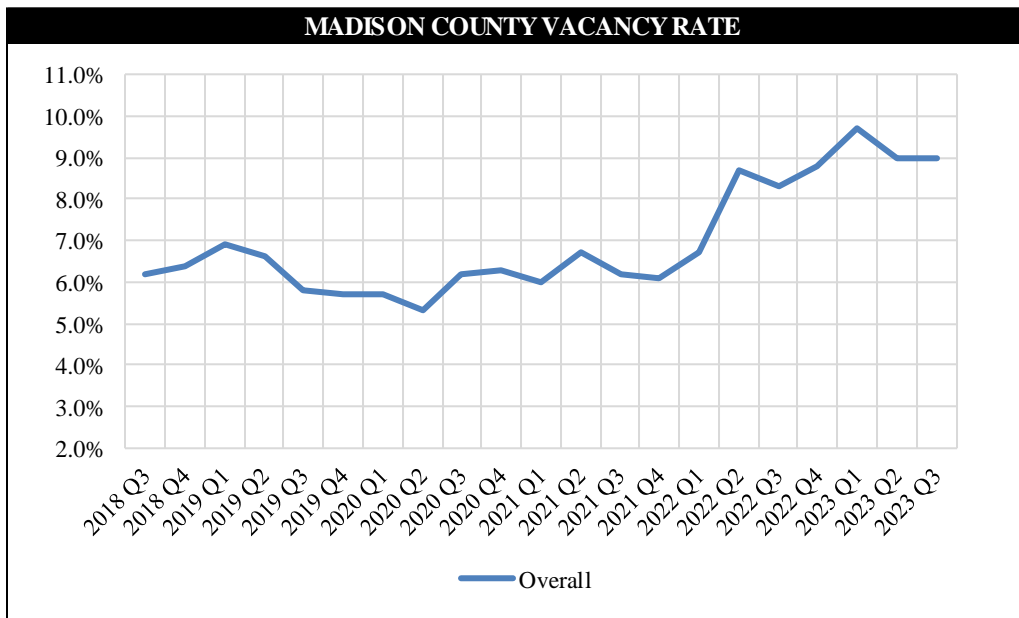
Lease rates within the county have trended upward. A slight pull-back occurred in Q2 2023 but Q3 2023 shows lease rate have returned to positive increases. A summary of the trends in effective rents in the market is provided:



Source: CoStar

Over the past five years, effective rents increased from \$16 to \$22.

Vacancy levels spiked slightly with the delivery of additional office space. This is provided:



Source: CoStar

The current vacancy rate of 9.0% is above the five-year average vacancy rate of 7.0%. This vacancy rate is still below a stabilized vacancy rate of 10% typically targeted by the office asset class. Any vacancy rate below 10% is considered a market that is under-supplied.

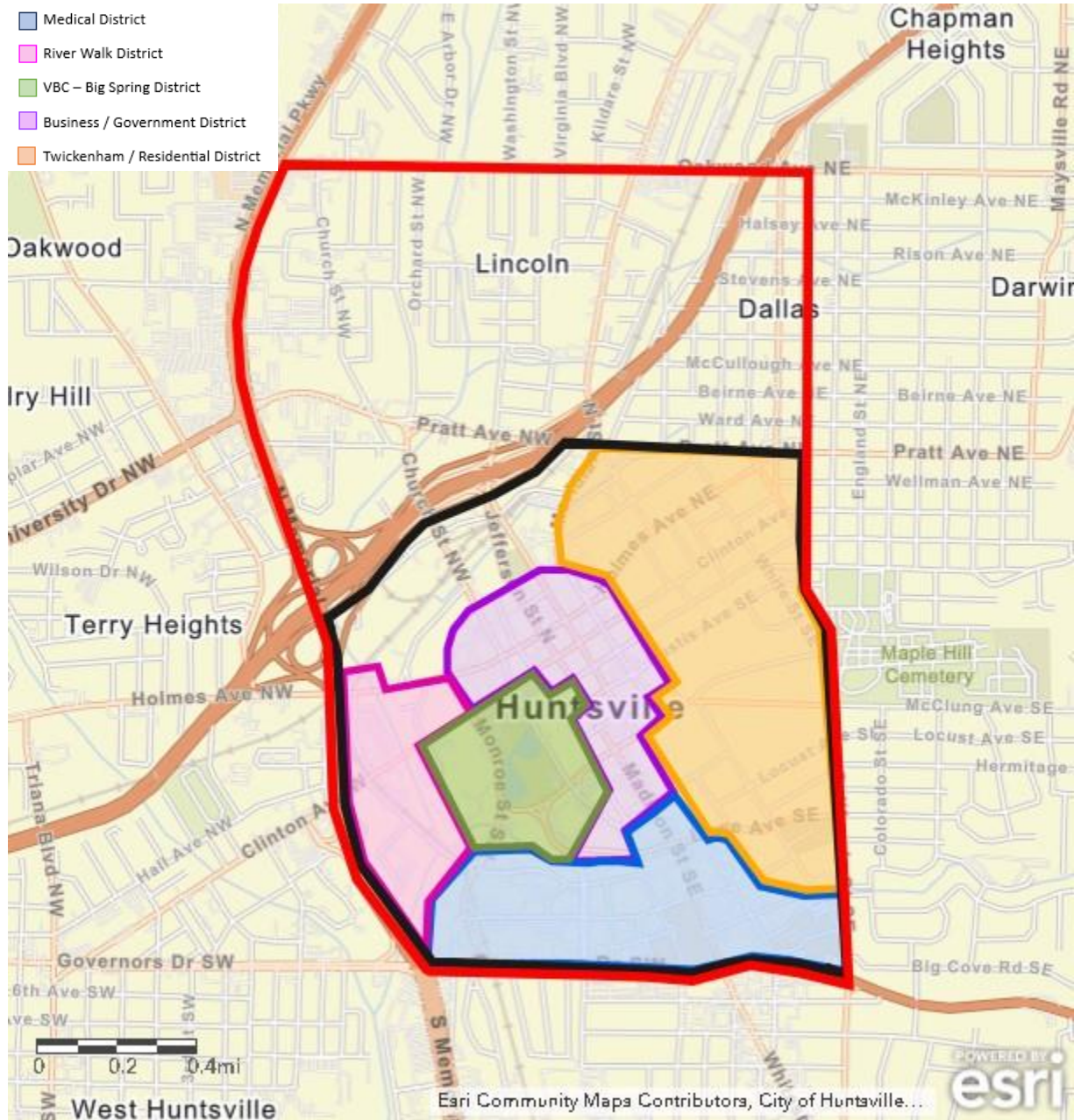
The vacancy rate is largely impacted by new and recently delivered space at the Redstone Gateway, which has historically leased up aggressively. Discussions with industry stakeholders indicate that the current uptick in vacancies as reported by CoStar is lagging the overall market. The real market vacancy is closer to 5%.

**Conclusion**

Conditions in the macro market are healthy and indicate demand exists for additional office products. Absorption has kept pace with deliveries. Rental rates have increased over the past few years and vacancy rates are at or below typical levels for a balanced market. Discussions with industry stakeholders indicate that the actual market vacancy is lower than CoStar reports.



PRIMARY MARKET AREA / DOWNTOWN DISTRICTS



An overview of the overall landscape of Downtown Huntsville is provided. The red outline is the geographical area within the Huntsville Downtown Redevelopment Authority Boundary (DRA). The black border identifies the downtown core. The entire downtown is within the DRA.

Downtown has about 3,000,000 square feet of office space within buildings that accommodate 20,000+ square feet scattered throughout the core. A discussion of the various nodes and districts within Downtown Huntsville is provided.

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■ Medical District – The Medical District is one of the largest medical nodes in the state of Alabama. Huntsville Hospital, the second largest hospital in Alabama, features a myriad of specialist care physicians and over 900 beds. The Huntsville hospital system has over 13,000 employees and is projected to increase. Medical office tenants have unique buildout requirements. Maximum efficiency for a building is to be either specifically designed for medical users or traditional tenants. This node should continue to focus on medical offices in support of the hospital and physician needs.

■ River Walk District – The River Walk District is a significant redevelopment area of Downtown Huntsville. The \$62 million pedestrian and redevelopment corridor (PARC) project has been fully funded. The flood mitigation and multimodal path that will be constructed along Pinhook Creek will anchor and link two major mixed-use communities: Constellation to the south and Front Row to the north. PARC will greatly improve the connectivity among the northern, western, and southern districts. The city will need to carefully monitor development within the River Walk District to ensure future land uses amplify the synergy created by complementary land uses.

■ VBC – Big Spring District – The Von Braun Center (VBC) and Big Spring Park anchor downtown Huntsville and represent the heart of the cultural center for Madison County. This district will tie directly to the PARC project. The VBC is home to the Huntsville Havoc hockey team which is a significant draw of foot traffic during game days. The team set an all-time league attendance record for the 2022-2023 season and is continuing to grow in support. Big Spring Park is the largest park in Downtown Huntsville and is a significant attractor of foot traffic throughout the day. Major mixed-use developments have located proximate the park to take advantage of this public amenity.

■ Business / Government District – The Business and Government District is the primary node for office uses in Downtown Huntsville. This includes both the private sector and public entities including city hall. A new City Hall will allow the consolidation of operations and bring additional workers into the core. The new 123,000 square foot Federal Courthouse supports the expanding judiciary operations for northern Alabama. The business and government district has restaurants, retail stores, entertainment venues, and service businesses predominately on the first floor of various buildings. Ground floors of existing and new buildings should continue to provide variety in business opportunities that enhance the walkable environment attractive to office workers, visitors, and residents. This district has a competitive advantage for office tenants due to its proximity to parking structures.

■ Twickenham / Residential District – The Twickenham / Residential district of Huntsville is dominated by residential land uses and historic homes. Minor commercial uses such as restaurants or banks are located on the fringe, but overall land uses will remain residential in nature. The uniqueness and historical nature of the residential properties complements the commercial activities within the core. Conversations with various stakeholders expressed no desire to expand commercial or mixed-use developments eastward into this district.

## **Conclusion**

Downtown offers a walkable environment highly desired by workers seeking convenient access to office-support services and amenities. The Medical District should continue to focus its efforts towards attracting tenants that complement the needs of the Huntsville hospital system. The River Walk and Business / Government District are the primary districts for office development. These two areas have older office buildings that could be upgraded or demolished to accommodate higher density developments.

## ***Downtown Office Supply and Demand***

COVID-19 accelerated a behavioral change in the workforce toward digital execution of business activities including hybrid and remote work policies. Technology adoption impacted how companies operate and to rethink what is the purpose of their office space. This changing behavior influences the amount of space, the type of space and location that will be in demand in the future.

A report issued by the Mortgage Bankers Association; September 2022 titled “A Framework for Considering Office Demand in a Post-Pandemic World” noted 76% of companies expect to use less dedicated seating in their offices in the future. Almost two-thirds expect to use more activity-based work and hot-desking.

New office development has the opportunity to deliver flexible spaces that align with the new work environment sought by tenants promoting creativity and collaboration. The city has the opportunity to plan future land uses to complement the office buildings with a variety of walkable experiences including social, recreational, cultural, and entertainment. End-users of office space use these complementary land uses for meetings and collaboration which is a significant competitive discriminator.

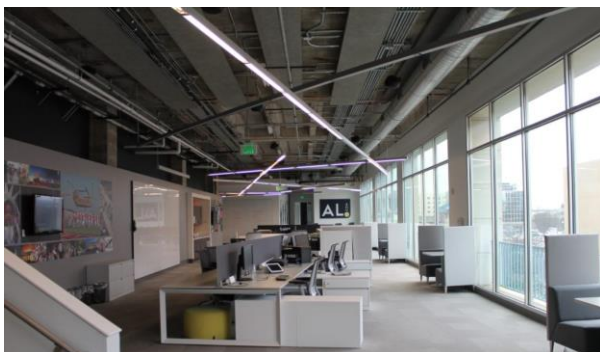
The most modern office buildings in greater Huntsville include Regions Center, 225 Holmes Ave, and 200 West Side Square. In comparison to peer cities, these buildings would be classified as Class B+/A-.

Class A office space is modern with quality standards. No renovation is required. Common attributes among Class A office product are provided:

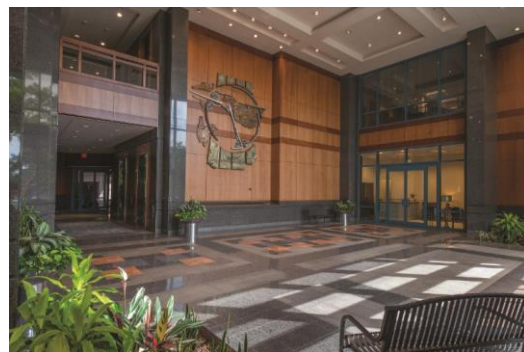
- Lobby space with high ceilings, natural light, reception, interior signage, and high-quality finishes;
- Large open and efficient floor plates with multiple coworking spaces and/or conference rooms;
- Common amenities may include a convenience store, coffee shop, fitness center and potentially a full-service restaurant;
- Modern elevators, freight elevators, and modernized HVAC to support a variety of tenants;
- Attached or proximate parking garage.

Tenant build-outs will vary according to the individual needs. However, there is a shift to designs that have a mix of private and quiet work areas plus communal workspaces. Cafés within the space to promote relaxed and causal ambiances are common.

Examples illustrate some designs and layouts from Regions Center, 225 Holmes, and 200 West Side Square:



Large Open Floor Plates



High Ceilings, High Quality Finishes

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Strong Curb Appeal



High Ceilings, High Quality Finishes

Two prominent developments downtown are Front Row and Constellation. Front Row will be mixed-use with about 35,000 square feet of office space. The balance of the project is comprised of rental apartments and retail. Front Row is anticipated to be under development by late 2023. Constellation is a 250,000 square foot office component that is adjacent their rental apartments. The rental apartment tower is complete and stabilized. Constellation’s office component does not have a definitive timeline for development therefore is not included in immediate future supply calculations.

Renderings of the Constellation Office building and Front Row are provided:



Proposed Constellation Office



Front Row

Front Row will be a “best-in-class” asset that will set the norm for lease-rates aligned with a Class A product. This project will be the first step in validating demand for quality Class A office space within Downtown. The success of this project will benefit the city from a financial perspective but also set quality standards for future developments.

## OFFICE DEMAND PROJECTIONS

A model was developed to determine office demand for the downtown core of Huntsville. Demographic and office data was collected from peer cities in the Southeastern United States that had some similarities with the fabric of Huntsville's economy. This includes the presence of the military, a major research park and/or STEM businesses. In addition, the location of the city, county and/or state government within the urban core was also considered.

Peer cities provided various benchmarks for sustainable office supply. These ratios were evaluated and applied to Huntsville. The demand model was prepared under three scenarios: conservative, moderate, and aggressive. Each scenario is defined below:

### *Conservative*

The conservative demand scenario assumes the City of Huntsville's downtown core will continue to expand at historic levels. The model demonstrates the quantity of new office space the downtown core can support over the next five years to maintain its current penetration rate of demand generated by employment growth throughout the county. No material deviation from historic trends is the foundation of the conservative projection.

### *Moderate*

The moderate demand scenario assumes the City of Huntsville's downtown core will expand with a moderate increase in office utilization by traditional tenants as well as the capture of new tenant profiles. Office space growth in this scenario assumes that the current infrastructure for the hospital and new City Hall and Federal Courthouse will create a synergistic environment for attracting additional office users to the downtown core. The moderate case also assumes that Huntsville's overall office representation in the downtown core versus competing office nodes will increase to align with the ratios achieved by some of the peer cities utilized in the analysis. A discussion on the Downtown versus total county market office space is included in the analysis.

### *Aggressive*

The aggressive analysis assumes a significant change in employment representation in the downtown core. Some peer cities were able to attract national and/or international companies who relocated their headquarters or significant segments of their corporate operations to downtown. The aggressive scenario assumes that Huntsville will be able to attract multiple end-user tenants that require significant office square footage in a build-to-suit scenario. Build-to-suit removes the risk associated with speculative development when a dominant tenant has not been secured. These regional/national end-users typically have multiple headquarter offices in regions throughout the United States or are one of the largest employers in the state for their respective industry. The aggressive scenario should be viewed as an upper bound for quantity of new office space development. Additional space above the moderate growth scenario should be driven by major end-users with built-to-suit office needs in order to avoid an oversaturation of speculative office space.

## **Methodology**

The demand analysis is comprised of three parts: peer alignment, job driven office growth, and a balanced market calculation. Peer alignment considers the effect on the overall office square footage requirement for Downtown Huntsville necessary to align with peer cities. Job driven office growth examines the office square footage requirement as Huntsville's overall employment increases. Finally, the balanced market

calculation estimates the required increase of square footage above the known addition of Front Row to bring the Huntsville vacancy rate in line with a market stabilized rate of approximately 10%.

The analysis utilizes employment and office space data from 2013-2022. This date range was selected as it is the most current available for the region. The demand model is projected to 2028.

**Military and Federal Employees**

Military personnel, federal government employees, retirees, handicapped or discouraged workers, and agricultural workers are not part of the civilian labor force. They are also not part of employment. For purposes of the analysis, military and federal employment and the office space they occupy on Redstone Arsenal is not included.

**Peer City Downtown (CBD) Office to Total County Market Office Calculation**

This analysis begins with a quantification of office square footage in the central business district of each peer city to the overall market office square footage within their county. This ratio is utilized as a leading indicator for the minimum office square footage required in a CBD to support in-place employment. In-place employment are people who live and work within their county. The ratios for each city are provided:

<b>PEER CITY CBD TO TOTAL MARKET OFFICESF RATIO</b>	
<i>City</i>	<i>Ratio</i>
<b>Huntsville</b>	<b>12%</b>
Birmingham	5%
Raleigh	33%
New Orleans	13%
Tampa	18%
<b>Conclusion</b>	<b>12% - 20%</b>
Source: Costar, BLS, Value Tech Realty Services, Inc.	

Birmingham is an outlier as the city’s office space is older with two concentrations: the northern submarket with financial and government tenancy, and the southern submarket dominated by University of Alabama’s medical center. The University of Alabama and the associated Medical District generate significant employment that is housed in educational and hospital settings. Thus, the office space within downtown necessary to accommodate employment is low.

Raleigh sets the high-end of the ratio due in part to it being the capital city of North Carolina and its capture of multiple national companies from various industries locating their headquarters to their downtown. Raleigh has captured a variety of firms within their newest building, The One Glenwood Tower. Tenants in the 212,500 square foot building include the headquarters for Issuer Direct Corporation and Capital Bank as the naming tenant.

Excluding the outliers, the peer cities indicate that approximately 13% to 18% of the county’s office space should be within the central business district. Huntsville is currently capturing 12%. A reasonable range for the projection of office space needed is 12% to 20%.

At the low end of the range, Huntsville’s downtown core is already under-supplied and additional office development will be required to accommodate the county’s influx of employers and employees. Further,



there is a void of Class A product downtown that could capture unmet opportunities. The moderate and aggressive scenarios take into consideration downtown’s current deficit of space and its ability to capture new opportunities. These scenarios align with the evidence from the stakeholders who stated potential tenants cannot be accommodated due to a lack of contiguous space and existing tenants are lost because they are space or parking constrained and cannot expand.

Increasing the ratio of downtown’s capture of the county’s total office demand is projected with reliance on the peer cities for the conservative, moderate and aggressive scenarios. Total additional square feet for the three scenarios are indicated in the following table:

<b>HUNTSVILLE PEER ALIGNMENT</b>	
<i>Model Scenario</i>	<i>Additional S.F.</i>
Conservative 12% Downtown To Total Market	0
Moderate 15% Downtown to Total Market	67,979
Aggressive 20% Downtown to Total Market	192,902
Source: Costar, Value Tech Realty Services, Inc.	

Discussions with various stakeholders noted downtown is missing opportunities due to the lack of office space. Thus, the moderate or aggressive scenario has market support.

**Future Office Demand Calculation**

Office demand expands with employment. Downtown should be able to capture its fair share of employment as the county and region continue to attract new businesses. Census data from 2020 was utilized as the basis for the demand projections. The downtown employment number is divided by the total number of jobs in Madison County to determine the ratio of downtown jobs to the county’s jobs.

<b>HUNTSVILLE DOWNTOWN JOBS TO TOTAL COUNTY 2020</b>	
Downtown Total Jobs 2020	23,345
County Total Jobs 2020	180,147
Percentage of Jobs in Downtown	13.0%
Source: BLS, Census, Value Tech Realty Services, Inc.	

The job ratio of downtown to the county of 13% aligns with the urban core’s ratio of office space to the county at approximately 12%.

Office construction since 2013 was analyzed in downtown and the overall Madison County market to gain an understanding of how much net rentable area per job was required. This time frame allowed the ability to evaluate new jobs versus new office space needs. The net rentable area (NRA) per job is provided:

<b>HUNTSVILLE NRA / JOB 2013-2022</b>		
	<i>Downtown</i>	<i>Total Market</i>
Square Feet	306,790	2,498,458
Net Rentable Area (NRA)	68	72
Source: BLS, CoStar, Value Tech Realty Services, Inc.		

As employment expands, the downtown core will require additional office development. Huntsville’s ratio is within the middle-portion of the peer city range as noted in the following table:



<b>OFFICE DEMAND - NET RENTABLE AREA (NRA) / JOB</b>	
<i>City</i>	<i>NRA / Job</i>
<b>Huntsville Conclusion</b>	<b>70 - 100</b>
Nashville	131
Durham	108
Huntsville	72
Birmingham	67
Raleigh	48
Tampa	25
Source: BLS, Value Tech Realty Services, Inc.	

The ratio provides an indication of supportable office space per job created. The low-end of the range is Tampa due to a substantial number of jobs within the city’s tourism industry and port. These jobs do not require office space. The high end is within Nashville where a significant number of regional and national tenant headquarters are located.

The various peer cities were considered in the analysis for qualitative and quantitative purposes. Huntsville’s approximately 70 net rentable area (NRA) per job is utilized in the conservative scenario of the analysis. At the current level, downtown has an office supply deficit. Therefore, the 70 NRA ratio sets the low-end of the range. A higher ratio of 100 NRA is utilized for the aggressive scenario.

Data from the Bureau of Labor Statistics was utilized to gain an understanding of the historical trend of employment growth within Madison County. Historically, the county has experienced significant job formation. The impacts of COVID were felt briefly, but the market had a rapid recovery and has returned to pre-pandemic job formation levels:

<b>MADISON COUNTY EMPLOYMENT GROWTH</b>			
<i>Year</i>	<i>Employment</i>	<i>Change</i>	<i>Change %</i>
2022	194,989	6,172	3.3%
2021	188,817	8,670	4.8%
2020	180,147	-2,555	-1.4%
2019	182,702	5,587	3.2%
2018	177,115	6,307	3.7%
2017	170,808	7,520	4.6%
2016	163,288	2,217	1.4%
2015	161,071	1,148	0.7%
2014	159,923	-290	-0.2%
2013	160,213	0	---
<b>Total</b>		<b>34,776</b>	<b>21.7%</b>
Compounded Annually			2.2%
Source: BLS			

Employment announcements suggest the next 3-5 years should experience robust job growth. The various factors considered in the conclusion of an appropriate compounded annual growth rate (CAGR) are summarized in the following table:

<b>HUNTSVILLE EMPLOYMENT GROWTH</b>	
<i>Period</i>	<i>CAGR</i>
1-Year (T12) Madison County	2.6%
3-Year Madison County	2.2%
5-Year Madison County	2.7%
10-Year Madison County	2.3%
Huntsville MSA (5 Year)	2.5%
<b>Conclusion</b>	<b>2.5%</b>
Source: BLS	

A 2.5% compounded annual growth rate (CAGR) is used in the analysis for the purposes of projecting job formation. Job growth is the leading indicator for office demand. Based on the growth rate, employment will expand by about 3,339 persons annually:

<b>DOWNTOWN EMPLOYMENT GROWTH</b>	
Employment Jan. 2023	196,069
Employment Jan. 2028 @ 2.5% CAGR	221,834
5 Year Job Growth	25,765
Downtown Employment Ratio	13%
<b>Projected Downtown Job Growth</b>	<b>3,339</b>
Source: BLS	

**Balanced Market Office Space Calculation**

A balanced market calculation is required for the demand analysis. A physical visit to review available and occupied office space within Downtown Huntsville was conducted to evaluate the quality of the existing office space. It was evident that even space in many of the older buildings has received significant interior renovations and tenant improvements. Due to the ongoing renovation of existing office space within downtown, all leasable office space was considered viable and included in the existing office space calculation.

A balanced office market typically operates with a 10% vacancy rate. This provides sufficient space to avoid missed opportunities. The current balanced office space calculation includes office product built from 2013-2022. This is provided below:

<b>HUNTSVILLE OFFICESPACE</b>	
A. Total Downtown Office S.F. (20,000+ SF Buildings)	3,000,000
B. Current Downtown Vacancy	5.1%
Current Vacant Downtown Office Space (A*B)	153,000
C. Balanced Market Office Vacancy Rate	10.0%
Balanced Market Office Vacancy S.F. (A*C)	300,000
Existing Deficit Downtown Office Space	147,000
Source: Costar, Value Tech Realty Services, Inc.	

The balanced market vacancy calculation indicates that there is an undersupply of approximately 147,000 square feet of office space. 225 Holmes is the newest office building in Downtown Huntsville. This development represents approximately 50,000 vacant square feet. The building is partially owner-occupied.

**Future Office Supply**

The demand calculation removes known additions to the office market. Discussions with developers, brokers, and various stakeholders in the industry indicated one development would likely deliver space during the next five years.

<b>FUTURE CBD OFFICE DEVELOPMENT</b>	
<i>Project</i>	<i>Square Feet</i>
Front Row	37,700

**Net Demand Calculation**

Net demand for office space in the downtown core is provided in a conservative, moderate, and aggressive scenario. The analysis consolidates the industry driving factors described above into a compact model. The conclusions are provided below:

<b>HUNTSVILLE OFFICE NET DEMAND CALCULATION 2023 - 2028</b>			
	<i>Conservative</i>	<i>Moderate</i>	<i>Aggressive</i>
<b>Peer Alignment</b>			
A. Total Delivered Market Office Square Feet 2013-2022	2,498,458	2,498,458	2,498,458
B. Total Delivered Downtown Office Square Feet 2013-2022	306,790	306,790	306,790
C. Peer City Ratio Alignment	12% (Current)	15%	20%
<b>D. Peer Alignment Adjustment (A*C)-B</b>	<b>0</b>	<b>67,979</b>	<b>192,902</b>
<b>Future Office Demand</b>			
E. Projected Downtown Job Growth 2023-2028	3,339	3,339	3,339
F. Net Rentable Area (NRA) / Job	70	85	100
<b>G. Total Required New CBD Office Space (E*F)</b>	<b>233,720</b>	<b>283,803</b>	<b>333,886</b>
<b>Balanced Market Calculation</b>			
H. Current Vacant Downtown Office Space	153,000	153,000	153,000
I. Balanced Market Office Vacancy S.F.	300,000	300,000	300,000
<b>J. Deficit Downtown Office Space (Excess Demand)</b>	<b>147,000</b>	<b>147,000</b>	<b>147,000</b>
<b>Future Office Supply</b>			
K. Proposed & Under Construction Office SF	-37,700	-37,700	-37,700
<b>2028 Office Space Demand (D+G+J+K)</b>	<b>343,020</b>	<b>461,082</b>	<b>636,088</b>

Multiple brokers and property owners indicated that some flight of employment from the downtown core had begun. There is not sufficient office space to maintain some existing tenants that need to expand. Missed opportunities have occurred because there is not sufficient contiguous space required by companies who had considered downtown as a location option. Others sought higher quality space. Downtown is at risk of losing other existing office tenants in a flight to quality.

**Conservative Conclusion**

The conservative scenario assumes NRA per job for the downtown core of Huntsville that is on the low-end of the range. NRA is calculated on total employment and is not the amount of office space required to

service each office worker. The approximate 70 square feet per downtown job is slightly lower than the current ratio in place.

This scenario indicates that the projected employment growth will support all existing and proposed office development over the next three years. Excess demand of **343,020** square feet will require new development to occur in the near-term. Failing to develop additional speculative office space in the near term would risk stagnating downtown's growth and long-term viability.

### **Moderate Conclusion**

The moderate scenario assumes NRA per job for the downtown core of Huntsville that is above the current level and still within the middle of the square foot per job range provided by the peer cities. The ratio of downtown office space to total county office space is increased in the moderate model. This assumption would indicate that local, regional, and large employers throughout the state are seeking to relocate a portion, or all, of their operations to Downtown Huntsville.

This scenario indicates that the projected employment growth will support all existing and proposed office development over the near term. Excess demand of approximately **461,082** square feet is an indication that the current pace of development would need to magnify its activity in order to achieve this amount of space. In the moderate scenario, build-to-suit opportunities would need to be pursued. Approval of additional speculative office development above the conservative estimate could increase occupancy risk in the core in the near term but would likely be absorbed.

### **Aggressive Conclusion**

The aggressive scenario assumes NRA per job for the downtown core is near the top of the range provided by the peer cities. This scenario indicates projected employment growth will support all existing and proposed office development in the near term. Excess demand of approximately **636,088** square feet is an indication that the current development and in-place office supply is noticeably inadequate to support office demand for Downtown Huntsville. Large employers cannot be accommodated with the current and proposed office pipeline. The aggressive scenario would provide sufficient space to accommodate large end-users including regional and national tenants.

Discussions with developers that can facilitate large high-rise office tower developments stated that a build-to-suit, mixed-use development is likely the only path forward to achieve this aggressive scenario. A large high-rise development as a standalone project would be prohibitively difficult to balance for risk under current economic conditions and financing requirements. Developers noted that the development would need to have a large portion of the office space pre-leased to successfully execute an expansion of office space of this size. Pre-leasing requirements of 70% for a high-rise office space would likely be required to secure financing, but with the addition of other uses like residential and retail the project becomes much easier to balance in terms of development and financing risks.

The aggressive scenario should be viewed as a firm upper bound for office development in the near to medium term.



## ***Boons and Barriers***

The City of Huntsville has made significant strides over the last decade to become one of the most desirable locations to live in the entire United States. U.S. News and & World Report and various other business journals have consistently ranked Huntsville as one of the top 5 cities in the United States, with many of these journals ranking Huntsville the number one city to live.

The city will have challenges to maintain this ranking as urbanization and density occur. Huntsville has created favorable attributes within downtown but these will require enhancements as the city continues to develop. These attributes are briefly discussed.

### **Boons**

#### **Safety**

Huntsville has reduced overall crime throughout the last decade and has created trails and walkways that are pedestrian friendly. The city will close specific streets downtown during high foot traffic periods to further enhance safety. Of the major metropolitan areas in Alabama (Population 150,000+), Huntsville ranks as the safest.

Discussions with end-users of office space indicated that safety was one of the deciding factors in picking a city. Huntsville's reputation as the safest major city within Alabama is highly attractive to companies that are looking to relocate to the state.

It is of the utmost importance that Huntsville maintains and further improves the perception of safety within the Downtown Core. Perception among workers, visitors and residents is exceedingly difficult to change once tarnished.

An increase in police presence should be hand-in-hand with increased development to maintain public perception of safety in Downtown Huntsville. Public safety partnerships with stakeholders could include methodologies for predictive policing, heightened surveillance 24/7, security barriers, and utilization of technology that promotes safety and discourages criminal activity.

#### **Live, Work, Play**

Downtown Huntsville has established itself as a live, work, play environment. The addition of significant mixed-use developments over the last decade has enhanced the synergy of land uses in the downtown core. Walkability, entertainment, and dining options have all benefited from the increased density of land uses. However, the volume of pedestrian traffic must be elevated for the businesses to thrive.

Huntsville's current growth trajectory has the capacity to support the Class A office asset class in the long term. Alignment with the peer cities used in the analysis will be heavily contingent on the City of Huntsville approving and incentivizing land uses that further the live, work, play environment.

Tampa, one of the peer cities used in the analysis, has enabled significant mixed use development opportunities for developers downtown. Tampa Water Street is the newest mixed-use development downtown and should be viewed as an example of a post-COVID success in driving employment and foot

traffic. Each asset within the Water Street development addresses one of the key pillars of the live, work, play model that drives synergistic growth within downtown.

In order to achieve an increase in office space representation in the downtown core of Huntsville, it will be crucial to increase the density of services and housing as well. The flight to quality trend in the office sector has made it abundantly clear to developers and end users of office space that the surrounding area of an office building is just as much of an amenity as what is provided on-site. Multiple housing types, employment opportunities, and entertainment venues provide a stickiness for individuals to remain in downtown throughout various stages of their life. In order to achieve a higher representation of office space downtown, the City of Huntsville must continue to embrace the live, work, play model.

**Green Space**

The City of Huntsville has prioritized green space and walking trails above what most other cities in the Southeastern United States offer. Park maintenance, cleanliness, and ease-of-use has created a public amenity that is unrivaled when compared to other downtown parks in the state of Alabama. Contiguous land uses such as hospitality, entertainment, residential, and dining options around the park synergize well for workers, visitors, and residents alike.

Huntsville is continuing to expand the downtown core as the premier location to live. One of the largest and most impactful infrastructure projects in the City of Huntsville’s history is the pedestrian access and redevelopment corridor (PARC) project.

The project will span through downtown and Lowe Mill. This project will include major flood plain reductions to Pinhook Creek and landscaped pedestrian paths. The flood plain reductions will improve the creek and provide additional developable land in the downtown core. The pedestrian path will be highly synergistic with the city’s goal of increasing daytime foot traffic. Mixed-use, retail, and commercial development proximate the walking trail should be highly encouraged to further enhance the quality of life of the surrounding residents.

Images of peer city river walks are provided below:





Greenville, SC



San Antonio, TX

Armature Works along the Tampa Bay River Walk brought new life to a northern district that was in decline. The historic building was renovated with a vision to bring people together through a shared love of food, art, music, and experiences. Anchoring the northern end of the walkway, the district has attracted additional capital investment in apartments, retail, businesses, and office buildings.



Tampa, FL

These pedestrian walkways, regardless of whether they are located along a river, canal, park or an established street corridor provide opportunities for engagement. Their presence, if linked with a downtown core, generates mutually beneficial foot traffic.

## Community Engagement

The City of Huntsville has a significant online presence through various websites and social media platforms to inform individuals of events. To further drive community interaction and engagement some peer cities have established QR codes, flyers, and billboards that notify the public of these online platforms. General awareness of events and promotions is paramount for increasing foot traffic. Further public engagement in the downtown core of Huntsville will enhance the synergy between the various land uses.

A list of events that Huntsville could incorporate more of to increase downtown vibrancy and activity is listed below:

### *Food*

- Street Food, Food Truck Fest, and Farmers Markets
  - o Huntsville hosts numerous public food and farmer market events throughout the year. Continued support of these events will enhance local businesses by increasing general awareness and their status within the community.
  - o Many peer cities host a street food and/or food truck event once a month. This event typically occurs on a single street that is reserved for foot traffic only. Some peer cities will host this on a street that borders the downtown park or walking trails. Farmers markets will typically have a similar attraction in terms of foot traffic and occur on a different day. The city should consider a food truck day. An example would be Tampa’s Third Thursday Event.



### *Fitness*

- Yoga / Barre
  - o Independent private businesses will occasionally host classes and events for their fitness groups in Big Spring Park.
  - o Encouraging local gyms to host fitness events in public spaces can be a significant driver in park usage and foot traffic in the surrounding downtown area. Some peer cities have a dedicated fitness day with a new or rotating activity schedule in partnership with local businesses. This further builds the local community and relationship between public and private businesses.



*Art*

- Art and Music Class, Education, Showcase, Performance
  - o Peer cities frequently seek out partnerships with local businesses to host events or educational programs in public spaces. These events are typically low-cost, same-day admission and focus heavily on performance, educating about art, or even classes. These are highly successful when partnered with local schools as they bring both parents and students to downtown for the day.



*Block Party and Trade Days*

- Block Party
  - o Peer cities will often host a block party once a month or periodically. Block parties or music focused events typically happen on a Friday beginning approximately 5:00 PM and closing approximately 10:00 PM. These events are highly foot trafficked and should have staging areas by parks or low vehicle foot traffic roads so as to not disturb the normal business of the city.
  - o A lesson learned from peer cities that have hosted these events is to maintain a high level of police presence as alcohol is always brought into the events by attendees. Local breweries are typically an integral part of these events and should have a cordoned off area for over 21's.
- Trade Days
  - o Some peer cities host a “trade day” that is different from farmers markets in that they’re primarily retailers, vendors, and commercial businesses. These trade days are highly beneficial for the local businesses as they have a much more inviting and open format to

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attract new business. This also has the benefit of increasing local awareness of the business within the downtown.

- Trade days can also have dual purpose as career fairs. The ultimate goal of these events is to provide local businesses with additional exposure that is not food and beverage related.



## **Conclusion**

The continuation of the public and private partnerships the City has established will further set the walkable image of downtown Huntsville apart from the rest of Madison County. Discussions with local residents made it clear that lack of awareness of events is a driving factor for a lower participation rate than what can be achieved. Peer cities have pursued QR codes, billboards, and flyers to draw additional attention to online resources and social media sites where the city hosts event information.

Ensuring that these events and the public/private partnerships continue is crucial to the downtown atmosphere the city is cultivating. Office space stakeholders and recruiters have stated that the significant changes the city has made over the last decade have made the downtown core attractive. Local businesses have stated that a downtown location is a retention and attraction tool for prospective employees. Continuing events like the ones described above will maintain and enhance Downtown Huntsville's identity and give individual businesses justification in establishing their roots in the city. These events are a major pillar in enhancing the live, work, play model.

## Barriers

There are identifiable obstacles that hinder downtown’s ability to capture office development. These can be reduced or removed. The primary barriers are briefly presented and discussed.

### Lease Rates-Price

Local companies are experiencing “sticker shock” as the lease rates for quality office space increase. Some recent lease renewals increased 40+% within the renovated Class B office space in Downtown Huntsville.

The newest office spaces within Downtown Huntsville are experiencing resistance from prospective tenants at the current asking rates and cost of tenant buildout. Triple net leases in the best office buildings are approximately \$28 - \$29 per square foot with \$50 - \$60 per square foot in tenant improvement allowances (TI). Brokers have indicated that this TI is woefully inadequate in today’s market, and property owners likely need to provide between \$100 - \$150 in TI to adequately improve the space.

Lease terms for space typically range between 3 years and 10 years in duration. Lease terms for office space below 5,000 square feet are typically a 3-to-5-year term, while space above 5,000 square feet is leased for 5-to-10 years. The significant cost increase for TI has put additional pressure on end-users to accept longer terms as property owners seek to cover the capital outlays necessary for build-out.

A summary of lease rates in the market for existing space that is second+ generation versus new space is summarized.

LEASE RATES		
<i>Lease Type</i>	<i>Rate</i>	<i>TI</i>
Existing Product		
NNN Lease	\$22	\$50 - \$150
Full Service Lease	\$29-\$30	\$50 - \$150
New Construction		
New Construction NNN	\$38 - \$43	\$100 - \$150
New Construction Full Service	\$46 - \$50	\$100 - \$150
Source: Crunkleton & Associates, Coldwell Banker Commercial McInain Real Estate		

The significant gap in feasibility rent versus market rent is provided to demonstrate the financial headwinds proposed projects are facing. Peer city leases for Class A product on a full-service basis is provided:

DOWNTOWN CURRENT RENTAL RATES (2020+)	
<i>City</i>	<i>Class A</i>
Nashville	\$43
Tampa	\$58
Crystal City	\$47
Raleigh	\$41
Greenville	\$35
Huntsville (Renovated Class B)	\$29
<b>New Construction Huntsville</b>	<b>\$46 - \$50</b>
Source: CoStar, Value Tech Realty Services, Inc.	

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Class A office product has not been tested in downtown Huntsville. Renovated Class B space commands approximately \$29 to \$30 per square foot full service. True Class A space in peer cities commands \$9-\$11 per square foot premium over Class B. Tampa’s difference of \$21 includes some of the newest projects in the Water Street development. These projects demonstrate the feasibility rents that must be obtained to bring new office assets to market. The differences are provided in the table that follows:

<b>RENT PREMIUM CLASS A VS B OFFICESPACE</b>				
	<i>&lt;2020</i>	<i>2020+</i>		
	<i>Class B - Full Service</i>	<i>Class A - Full Service</i>	<i>Premium</i>	<i>Difference %</i>
Nashville	\$34.00	\$43.00	\$9.00	26.5%
Tampa	\$37.00	\$58.00	\$21.00	56.8%
Crystal City	\$36.00	\$47.00	\$11.00	30.6%
Raleigh	\$31.00	\$41.00	\$10.00	32.3%
Greenville	\$25.00	\$35.00	\$10.00	40.0%
Huntsville (Renovated Class B)	\$25.00	\$30.00	\$4.00	16.0%

Source: CoStar, Value Tech Realty Services, Inc.

New office development requires a \$38 to \$42.50 feasibility rent (triple net). Full-service rates are expected to be \$7 to \$8 higher than triple net. Peer cities have demonstrated premiums for Class A versus Class B space. Huntsville does not currently offer true Class A office space.

The current economic environment of high land and development costs and elevated financing terms is partially responsible for the gap between current leases and financially viable rents. Municipal incentives are the only path forward for bringing multiple new office products to Downtown Huntsville in the near term, barring a significant decline in costs. New construction versus in-place rent does not need to reach parity to become competitive, however. Many peer markets have demonstrated that a significant premium can be obtained for true Class A projects.

Brokers that are highly active within the downtown core of Huntsville have been approached by major national employers that cannot relocate downtown due to a lack of space. These employers have signaled that they will pay a premium for best-in-class space that provides adequate parking and naming signage opportunities.

As discussed previously, the region’s economy is anchored by military- and federal- related corporations typically operating on fixed budgets. Profit margins are thin. Thus, expenditures for office space experiences downward pressure from these businesses. Some incentives and support by the city, county, and/or state will be required to bridge the financial gap to ensure office development occurs and can be financially viable.

Front Row, the only proposed project in Downtown with Class A office, is likely to move forward in the near term. The office space is part of a larger mixed-use development. The 37,700-square-foot office component is significantly below the demand projections required to sustain Downtown Huntsville’s office needs.





## **Parking Management and Guidance**

All stakeholders contacted for the purposes of the market research indicated that parking was a significant barrier to entry in the Huntsville office market. Parking issues ranged from location, pricing, availability, and signage.

### *Location*

The location and type of parking is a key discriminator for operating a successful business in Downtown Huntsville. Mixed-use developments that feature strip retail on the first floor have stated street parking is the most important driver of patronage. Retailers state that prospective customers prefer street parking and will circle multiple blocks until a space is available. It is crucial that the city maintains the in-place policy for street parking and expands the offerings if possible. Mixed-use developments that include strip retail should be encouraged to include street parking in close proximity to their retail component if the site plans permit the parking set-aside.

The parking deck location for office users is crucial particularly for companies that host in-person client meetings. Property owners stated that a parking deck with direct access to the building is the most attractive option for prospective tenants. Conversations with end-users of office space and brokers indicated that a parking garage that was multiple blocks away from the office would be prohibitive in signing a new lease. Overall conversations with office stakeholders indicate that a parking deck must be either attached, on-site, or adjacent to the office space in order to lease new office space.

Contrary to the statement is the acceptance of remote parking when the price is “free” or at a substantially reduced cost. Remote parking can lighten pressure within the core. Safety and convenience of access remain critical attributes for the location of remote parking lots.

### *Pricing*

Pricing for parking is a significant component of the cost of accommodating workers downtown. Current construction estimates for a parking garage are approximately \$35,000 per parking space. This equates to approximately \$2 per square foot in additional cost to a business owner.

To reduce the burden created by parking garages, the city could offer an abatement on parking fees until a new office project achieves stabilized occupancy of 90% or higher. This would allow office developers the ability to utilize their capital in more productive avenues such as marketing efforts and TI. Parking fees could be returned to market levels when the building is stabilized, and cash flow is more robust.

Parking abatements have been utilized in other cities through a tax incentive financing structure (TIF) that provides a tax abatement for the construction of the garage. For example, the garage will include set-aside spaces for public use. The developer is responsible for the garage cost and operation. The public spaces are leased at established rents that typically align with the market. The incentive to the developer is the tax abatement and the long-term revenue generated by the garage.

*Availability*

Retailers stated that parking deck availability was a minimal concern for their daily operation if street parking is adequate. Prospective retail patrons highly prefer street parking and will typically avoid using the parking decks.

Discussions with multiple tenants of office space in Downtown Huntsville indicated that their allocation of parking restricted their ability to expand their workforce and/or accommodate their existing staffing levels. One individual stated that they did not renew their downtown lease due parking allocation not sufficient to meet their business needs. This was despite the fact that the garage accommodating their business was typically not operating at capacity. Parking management programs can help to solve this type of problem through more robust utilization of the garage.

Overselling parking spaces is a common occurrence amongst owners of parking decks in peer cities. A survey of parking deck owners indicated that many oversold their parking deck by approximately 20% - 40%, with the highest oversale rate at 100%. Overselling is possible with the appropriate parking management systems.

Various tenants in Downtown Huntsville stated that a portion of their employees worked in a hybrid scenario and did not utilize their parking for the full week. It is recommended that the city evaluate their current parking utilization and consider overselling parking spaces to ease friction among office users needing adequate parking proximate their business.

*Signage*

The parking garages in Huntsville have inferior signage and directional information along the streetscape when compared to peer cities. Signage along the face of the parking deck is not sufficient to inform through traffic of parking availability, pricing, or location of the entrance. The garage on Clinton Avenue is pictured as an example of insufficient signage.

The corner of the Clinton Avenue garage has a single sign indicating the building is for parking. The size and location of the sign is difficult to see and can be easily overlooked by traffic that is passing through the intersection. A larger monument and/or affixed sign is recommended with an indicator for the entrance location.



Small Singular Sign is Insufficient

The Clinton Avenue Garage has no exterior signage, pricing, or parking availability counter by the entrance. The entrance of the garage does not indicate if public parking is available in a clear manner. Visitors to Downtown Huntsville could easily drive by or assume this parking garage is not for public use.



Lack of Signage Indicated Public Use is Permitted

It is recommended that the city consider adding a monument or affixed public parking sign above the entrance of the garage. Large placard signs with pricing and hours are also recommended. Some peer cities have significantly enhanced the usability of their parking through robust management systems that include digital signs with the number of available spaces within the deck.

Peer markets with active urban centers have noticeably more signage and information affixed to the exterior of their parking decks. Peer markets typically include pricing, multiple affixed and monument signs, and directional signs stipulating if a garage is for public or private use on the exterior of the garage.

It is recommended that the city revisit their parking garage systems, signage, and placard policy for parking decks to facilitate the ease-of-use for individuals that may not be knowledgeable of Downtown Huntsville and the various parking options available.

An image of a peer market parking deck illustrates the robust parking signs. These are attached to the side of the parking deck at various heights. An illustration is provided:



Signage along the Building, at the Entrance and Street Level



Parking Availability by Type of User

Parking management systems that are operated properly will generate higher revenues for the city and significantly enhance the utilization of the garages. They also provide users with the ability to find a space, removing stress and improving egress and ingress of traffic.

## Office Signage

Signage restrictions for office building owners has been a hinderance in attracting additional leases to Downtown Huntsville. The current municipal signage code should be re-evaluated. Peer cities are able to satisfy the signage needs of businesses while at the same time achieve their goal of consistency and order.

Discussions with property owners, brokers, and leaseholders of office space stated that the existing signage ordinance greatly hinders business exposure. This reduced exposure has caused employers to relocate out of the downtown core into districts that permit more favorable signage, or single-user buildings where the business can utilize the entire signage allotment for their company.

The primary issue with the existing signage ordinance is that it does not consider the number of tenants or the square footage of the building. Brokers have stated that many leases downtown have been dropped historically due to signage, particularly among very large employers as they cannot sufficiently display their company name on the top or façade of the building. There is a slight increase in signage for buildings over five stories, but this is ineffective for shorter buildings with large floor plates.

Recommendations for improving the signage ordinance is provided below and has been taken from peer city signage ordinances:

1. For buildings above 20,000 net rentable square feet regardless of height to have an allowance of one top story sign, with a maximum of 50% of the lettering permitted above the roof line. This sign can be waived as a bonus sign contingent on a municipal review and permit process;
2. Signage bonus of one for buildings that incorporate an additional entry. This additional signage must be proximate to the entrance. This additional sign cannot exceed fifteen percent of the façade area for public entry, or a maximum of 100 square feet whichever is less. This additional signage may be divided between entrances. The additional entrance must be useable as a primary entrance to the building during normal hours of business operation for ingress and egress. This additional entrance cannot be a fire escape or emergency exit;
3. Allow a landmark sign that is unrestricted in square footage but counts against the total allowable for the building, up to 50% of the total allowable square footage of signage. This will count against the permitted signage for the building. The landmark sign must identify the business occupying the premises;
  - a. A landmark sign shall be unique.
  - b. Material, technology, and design should be of high quality.
  - c. The sign must be on-site. The sign may not be a billboard.
  - d. Ground based landmark signs must be tied into the overall design proximate pedestrian walkways preferably with landscaping.

Ultimately, a looser signage policy is desired by all stakeholders in the office asset class ranging from property owners to end-users. With looser restrictions on signage, it may be prudent to establish a special application and review process for overall office signage. The City of Nashville has a review process for signage for new construction.

## ***Tax and Redevelopment Incentives***

### **Chapter 9B Abatements – Tax Incentive Reform Act**

An office development could utilize the Tax Incentive Reform Act if the development is not purely speculative in nature. There is some flexibility in the amount of space within a building that must be build-to-suit. The Tax Incentive Reform Act (TIRA) of 1992 gives the City of Huntsville the ability to abate the following taxes:

- State sales and use taxes;
- Non-educational county and city sales and use taxes;
- Non-educational state, county, and city property taxes – up to 10 years;
- Mortgage and recording taxes;
- Fulfills the business activity requirement for industrial or research Enterprise (NAICS codes for these businesses are found in addendum A)

These abatements extend to personal property, real estate, and construction related taxes. A highly advantageous portion of the TIRA is that a development could abate a portion of taxes in a new development. A new office project does not necessarily have to be exclusive to a single tenant. As long as a tenant is a NAICS code eligible company as set forth by the TIRA then that pro-rata share of the taxes may be abated. If a development is dominated by NAICS code eligible companies then it is possible for the entire development to be tax abatement eligible, even if the total project has not been leased.

### **Tax Increment Financing**

The City of Huntsville has seven established Tax Increment Financing Districts (TIF), with a proposed eighth in the pipeline. These districts enable the city to pay for public infrastructure that supports growth within these districts, with the caveat that incremental increases in property taxes pay back the city for these improvements.

It is recommended that the City of Huntsville explore the establishment of a TIF district to improve the public streetscape, parking, and public signage within the downtown core. Unforeseen public improvements proximate the PARC project will likely be required as the surrounding land uses develop and take advantage of the public amenity. Additionally, parking garage space will likely be required in key areas throughout downtown as additional mixed-use projects move forward in the medium term. The city should proactively establish a TIF district in pursuit of enhancing the public infrastructure downtown as a signal to developers that the city is pro-growth.

### **Downtown Redevelopment Authority**

The Downtown Redevelopment Authority (DRA) allows developers to exempt sales and use taxes for non-educational state and local taxes on construction materials. The use of this public mechanism is contingent on a contract between the DRA and contractor.

Typically, a developer will utilize the DRA when they are not able to use the Tax Incentive Reform Act (TIRA). The significant advantage of the downtown redevelopment authority in some scenarios is the much broader definition of projects that can be compliant with the authority when compared with TIRA.

*ADDENDUM A*  
*REFERENCES AND RESOURCES*

## **Tax Incentive and Reform Act**

- <https://www.revenue.alabama.gov/tax-incentives/chapter-9b-abatements/>
- <https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/135558.htm>
- <https://alisondb.legislature.state.al.us/alison/CodeOfAlabama/1975/135558.htm>

## **Tax Increment Financing**

- <https://law.justia.com/codes/alabama/2021/title-11/title-3/chapter-99/>

## **Downtown Redevelopment Authority**

- <https://law.justia.com/codes/alabama/2016/title-11/title-2/chapter-54a>

## **Qualifying Business Activity under Chapter 9B Abatements**

The qualifying project must constitute an “industrial, warehousing, or research activity”, which includes the following:

→ Any of the following trades or businesses in the North American Industrial Classification System (NAICS). See <https://www.census.gov/naics/>, promulgated by the Executive Office of the President of the United States, Office of Management and Budget:

- 1133 (logging)
- 115111 (cotton ginning)
- 2121 (coal mining)
- 22111 (electric power generation)
- 221330 (steam and air conditioning supply)
- 31 (except National Industry 311811), 32, and 33 (manufacturing)
- 423 and 424 (merchant wholesalers, goods)
- 482 (rail transportation)
- 4862 (pipeline transportation of natural gas)
- 48691 (pipeline transportation of refined petroleum products)
- 48699 (all other pipeline transportation)
- 48819 (air transportation support activities)
- 4882 (rail transport support activities)
- 4883 (Port authority water transportation support activities (other than 48833))
- 493 (warehousing and storage)
- 511 (publishing industries)
- 5121 (motion picture and video industries (other than 51213))
- 51221 (record productions)
- 517 (telecommunications)
- 518 (data processing, hosting, and related services)
- 51913 (internet publishing, broadcasting, web search portals)
- 52232 (financial transactions processing, reserve and clearinghouse activities)
- 54133 (engineering services)
- 54134 (drafting services)
- 54138 (testing laboratories)
- 5415 (computer systems design and related services)
- 541614 (process, physical distribution, logistics consulting services)



- 5417 (scientific research and development services)
- 55 (Management of companies (if not for the production of electricity))
- 561422 (in bound call centers only)
- 562213 (solid waste combustors and incinerators)
- 56291 (remediation services)
- 56292 (materials recovery facilities)
- 611512 (flight training facilities)
- 927 (space research and technology)
- 92811 (national security).

→ Qualifications – Business Activity by Specific Projects

- Headquarters facilities (NAICS 551114) (where at least 50 jobs are created)
- Data processing centers (where at least 20 jobs are created making \$40K)
- Research & development facilities
- Renewable energy facilities (solar projects)
- Tourism destination attractions
- Technology companies as defined in §40-18-376.3(c)
- Agricultural centers as defined in §40-18-411(a)(2)c

*Please see Section 40-9B-3, Code of Alabama 1975 for the definitions of the specific projects.*

→ A target of the state’s economic development efforts pursuant to either of the following:

- One of the 12 targeted business sectors under Accelerate Alabama 2.0 (update of the 2012 Accelerate Alabama Plan):
  - Advanced Manufacturing in:
    - Aerospace/Aviation
    - Automotive
    - Agricultural Products/Food Production
    - Metal and Advanced Metals
    - Chemicals
    - Forestry Products
  - Bioscience - Foundational Targets in:
    - Corporate Operations
    - Cybersecurity
    - Data Centers
    - Distribution/Logistics
    - Information Technology
    - Research & Development

*Please visit <https://www.madeinalabama.com/assets/2017/01/Accelerate-Alabama-2.0.pdf> for detailed information on Accelerate Alabama 2.0.*

***ADDENDUM B***  
***QUALIFICATIONS***



"Providing solutions & exceeding expectations through vision, integrity & excellence"

**Quintin Kauchick**  
Director of Operations  
**Value Tech Realty Services, Inc.**  
240 Crystal Grove Boulevard  
Lutz, FL 33548  
813.948.0545 Phone  
813.909.9338 Fax

### ***Certifications***

Member: NCHMA – National Council of Housing Market Analysts

State-Certified General Real Estate Appraiser:

- Florida RZ4346
- Georgia 428005
- Alabama G01634
- North Carolina A9103

### ***Education***

Bachelor of Science – Emory University

### ***Professional Experience***

Mr. Kauchick joined Value Tech Realty Services in January 2021. He is a real estate consultant focused primarily on the multifamily arena. He has been active in the real estate industry since 2015 with experience in acquisition due diligence, valuation, and market research.

At Value Tech his experience is utilized in market research across the southeast for mixed-use, affordable, and market-rate apartment communities. He is currently the project lead for consulting assignments that require feasibility and/or concept studies of major mixed-use developments. His market research experience is focused on developments that are best-in-class or unique for the target market.

His appraisal work is focused on both the healthcare and multifamily arena. His experience in multifamily and healthcare includes HUD compliant 221(d)(4), 223(f), and 232 LEAN appraisals, conventionally financed affordable programs, as well as various capitol stacks.



"Providing solutions & exceeding expectations through vision, integrity & excellence"

***Kay Kauchick, MAI***  
Chairman  
**Value Tech Realty Services, Inc.**  
240 Crystal Grove Boulevard  
Lutz, FL 33548  
813.948.0545 Phone  
813.909.9338 Fax

### ***Certifications***

Member: Appraisal Institute (MAI No. 10510)  
NCHMA – National Council of Housing Market Analysts

State-Certified General Real Estate Appraiser in the following states:

- Alabama – G00706
- Arizona – 32204
- Arkansas – CG 4260
- Florida – RZ2066
- Georgia – 251355
- Indiana – CG40700410
- Iowa – CG03490
- Kentucky – 003868
- Louisiana – G4460
- Maryland – 32466
- Mississippi – GA-813
- New Jersey – 42RG00194800
- North Carolina – A6711
- Ohio – 2006006410
- Pennsylvania – GA004330
- South Dakota – 1403CG
- Tennessee – 5891
- Texas – TX-1336610-G
- Virginia – 4001-015705

### ***Education***

Bachelor of Arts – Michigan State University with specializations in Tourism and Travel Management, Economics, and Marketing.

Mrs. Kauchick has successfully completed numerous real estate related courses and seminars sponsored by the Appraisal Institute, accredited universities and others. She is currently certified by the Appraisal Institute's voluntary program of continuing education for its designated members. Mrs. Kauchick completed the HUD sponsored MAP training session in October 2000. She regularly updates her USPAP training and other education requirements as needed to maintain licensure in each state.

### ***Professional Experience***

Mrs. Kauchick is co-founder of Value Tech Realty Services, Inc. She is a real estate consultant and Member of the Appraisal Institute. Her consulting services cover a broad spectrum of industries including market analytics, economic evaluations and financial valuations with deliverables that include a variety of real estate related services such as appraisals, market studies, economic impact reports and investment consulting. Reports have been prepared for a variety of private and governmental entities including the U.S Department of Housing and Urban Development (HUD) including MAP applications, Fannie Mae, Freddie Mac, LIHTC and various Bond programs. Each report was prepared in conformance with its individual agency requirements and with adherence to USPAP.

Mrs. Kauchick has been actively engaged in real estate valuation and consulting since 1979 on national and international levels. Her background includes experience with the creation of economic development programs for third world countries utilizing tourism and real estate development as a stimulus for growth and detail market studies for private and public entities. She has assisted banks, international investment funds, and various profit and non-profit entities, evaluate investment opportunities. Her specialization has been within the housing, healthcare, multifamily, retail, office and hospitality industries. Clients served include accountants, investment firms, law firms, and lenders, private and public agencies. Valuations and market studies have been done on proposed, partially completed, renovated and existing structures.

Military-related work has been completed for the Navy, Air Force, Army, Army Core of Engineers, AAFES and developers providing services to each of the divisions. Economic and market program models have been created for the ability to evaluate various development scenarios. Demand studies were developed to interface with financial modeling programs in order to judge the highest and/or best use for military projects.

***ADDENDUM C***  
***ENGAGEMENT LETTER***



"Providing solutions & exceeding expectations through vision, integrity & excellence"

March 15, 2023

Mr. Robert Buddo  
President & CEO  
Downtown Huntsville, Inc.  
P.O. Box 471  
Huntsville, AL 35804  
[rob@downtownhuntsville.org](mailto:rob@downtownhuntsville.org)

RE: Office Market Assessment for downtown Huntsville

Dear Mr. Buddo:

Downtown Huntsville seeks to expand and diversify its office sector in order to create more daytime activity. The City is experiencing the impact of the transformation of the workspace as well as the competition of mixed-use submarkets that offer many of the same elements as a traditional urban center.

Historical trends defining where, what and how much office space a market demands can no longer be relied upon to determine future supply. Technological advances coupled with the expansion of the professional service sector that now comprises over one-fifth of the workforce impacted the location and nature of office work to shift.

The COVID-19 pandemic fundamentally altered workforce behavior, creating an imperative to fill the void left by the flight of traditional office tenants and an opportunity to purposefully re-create downtowns. Transformative placemaking is necessary to make the urban core more vibrant and fiscally sustainable by aligning the city's desire for more daytime workers with the ability to draw investment into the office sector.

Traditional office space demand is on the decline. Downtowns such as Huntsville that were government and cultural centers have experienced an exodus of the traditional office tenant. Professional companies such as attorneys are able to service clients remotely. Technology reduces the amount of space required per employee. The hybrid work environment and telework further reduces the number of employees accommodated on a typical day.

Finance, technology and innovation sectors specialized talent where tacit knowledge and knowledge spillovers were key to the recruitment and retention of staff are re-thinking their organization structure. Where hyper-agglomeration of these sectors was concentrated in a few key metropolitan areas, recent decisions indicate a broader geographic presence is preferred. Thus, opportunities exist for regional offices to be established. This shift has opportunities for Huntsville that has a broad and deep STEM labor force.

Office buildings are at risk for declining occupancy levels and many of the older buildings have obsolete floor plans and amenities. Costly interior renovations are necessary to align the space with the increased demand for office floor plans that are more retail-like in their design. This includes the emphasis on collaboration spaces, flexibility with designs, comfort amenities and services.

An office tenant that requires the interaction of employees is well-suited for urban cores where synergy exists among the live-work-entertain land uses. Urban core tenants will accommodate the large user but

also focus must include the smaller organization including freelancers, incubators, accelerators, and tenants seeking coworking spaces.

Huntsville has the dynamic integration of land uses underway. The focus now is to transform the office sector to attract tenants that depend on in-person employee interaction. The office space for the future will play a vital role in the social and professional connectivity of occupations that benefit from an urban location. The opportunity for the public and private sector is the financial benefit created by the revenues expended by firms and their workers on retail, restaurants and other nonoffice businesses. This creates an increased tax base to the city.

You have asked Value Tech Realty Services, Inc. (VT) to assist you in evaluating the office market and determine the need and the type of tenant that should be sought. The Scope of Work to achieve this goal is provided:

**Scope of Work**

1. Conduct a historical review of development trends in Huntsville to quantify the current state of the downtown office market;
2. Obtain current development pipeline activity;
3. Evaluate the tenant profile currently captured;
4. Secure information on the potential loss of tenants and their characteristics and motivation for the departure from the urban center;
5. Evaluate the available space by size;
6. Examine support services and parking to determine if the availability has a positive or negative influence of securing and/or maintaining a viable office market;
7. Evaluate other downtown markets to discern those that have and/or are transforming to meet the needs of the changing office market;
8. Provide a projection of the amount of space that should be considered for downtown;
9. Provide guidance with the type of tenant(s) profile(s) that should be sought;
10. Prepare a written report that documents our findings.

The fee associated with the market study is            ). A            retainer is requested that provides the funding necessary to conduct the research. A preliminary draft of the research and conclusions will be issued for review prior to finalizing the document. The purpose of the review is to provide the opportunity for feedback and discussion of our findings. Corrections and/or additional explanations of the findings will be incorporated based on our discussions and a final report will be issued.

The time frame for a market study is typically five to eight (5-8) weeks. This timeline is flexible and is influenced in part by the ability to confirm the development pipeline and to complete supply interviews. We encourage discussions with you as we move through the research and analytical process which could impact the timeline outlined for delivery of the final report.

We appreciate the opportunity to submit this proposal and would welcome the opportunity to work with you on this assignment. Please call me at (813) 948-0545 if you have any questions.

Mr. Robert Buddo  
Downtown Huntsville, Inc.

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March 15, 2023

Respectfully submitted,

VALUE TECH REALTY SERVICES, INC.



Quintin Kauchick  
President

Your signature along with a retainer in the amount of \_\_\_\_\_ authorizes our firm to complete this assignment. The retainer will be applied to the total fee. The balance of the fee will be due prior to issuance of the final report. It is understood that in the event any part of the fee or expenses is not delivered to Value Tech Realty Services, Inc., the proprietary interest in the research shall remain exclusively in Value Tech Realty Services, Inc. It is further understood that you, the client, shall be responsible for any fees or costs that may be incurred in an attempt to collect unpaid fees under this agreement.

Accepted by:



Mr. Robert Buddo  
President & CEO  
Downtown Huntsville, Inc.

Date:

4.3.2023