THE BIG PICTURE
Our Study, Vision & Plan for the City of Huntsville

Market Assessment

June 2014

market + main

Overview

The purpose of this analysis is to examine the real estate market dynamics and trends in the City of Huntsville, and determine how they may impact the potential for development and redevelopment. Both the positive and negative influences affecting the City are considered in this analysis for the purpose of identifying opportunities to capitalize on positive trends and to enhance declining areas.

This document has five sections:

Executive Summary:

Summary of key real estate market dynamics unique to Huntsville, a review of each of the property sectors' analysis including key takeaways, and key questions to consider for the future direction of real estate market performance in Huntsville.

Residential Market Analysis:

Reviews City of Huntsville performance, metropolitan area characteristics, and national trends related to residential development.

Retail Market Analysis:

Reviews City of Huntsville performance, metropolitan area characteristics, and national trends related to retail development.

Office Market Analysis:

Reviews City of Huntsville performance, metropolitan area characteristics, and national trends related to office development.

Industrial Market Analysis:

Reviews City of Huntsville performance, metropolitan area characteristics, and national trends related to industrial development.

Executive Summary

Summary: Key Real Estate Market Dynamics

Each community also has unique attributes that greatly affect the functioning of the local real estate market. An understanding of these attributes is needed in order to get a clear picture of the past and the likely future of the area. The following are some of the unique characteristics that impact the Huntsville real estate market.

Regional Economic Engine

The City of Huntsville is the economic engine for all of northeastern Alabama. It has a significant share of the jobs, population, and retail commerce for the larger area. With this economic activity comes a great deal of commercial development. Economic growth in Huntsville affects not only the City, but the larger region as well.

Federal Government Employment & Spending

The economy of the Huntsville area is greatly impacted by Redstone Arsenal and its affiliated contractors. The Arsenal not only brings employment and development, it also greatly skews the natural cycles of the local economy. The jobs that result from Redstone and from defense-related contractors do not respond to the same cyclical forces that shape the national economy and affect most private sector jobs. The result is greater stability during economic downturns. However, these jobs are affected by federal budget cuts and political concerns about future cuts. These budget cuts often take place during times of economic recovery, creating a local economy that is not in sync with the larger national economy and that is heavily dependent on continued federal spending.

Highly-Skilled Workforce

The City of Huntsville has a highly educated population, which has a tremendous impact on the local economy. The combination of this skilled workforce and a relatively low cost of living have served to attract a wide variety of employers to the area and has resulted in strong incomes for local residents and a steadily increasing population.

Suburban Character

The City of Huntsville developed largely after the widespread use of automobiles. The result is an overwhelmingly suburban development pattern with low-scale commercial development along major corridors and a separation of uses. This development pattern will likely make redevelopment of aging areas more difficult. Areas with a more historic development pattern, such as downtown Huntsville, can transition more easily between uses when there are changes in the economy or consumer preferences. In contrast, a suburban shopping center, office park, or subdivision is not as easily converted to another use. For many areas in Huntsville, redevelopment may require demolition and rebuilding.

Summary: Residential Market

National Trends

The national housing market was greatly impacted by the economic downturn. Even though the market has recovered somewhat, there seems to have been a lasting shift in the residential market. For many, home ownership is no longer viewed as a good investment, and a growing segment of the population is looking to live closer to their place of employment or closer to goods and services. In addition, the Baby Boomer generation has passed through their child-rearing years and no longer necessarily needs as much space in their homes. The likely result of these trends is a long-term weakening of the market for large, suburban homes, especially those furthest from the urban core or major suburban commercial centers. In many cities, the significant strengthening of the housing market in closer-in, desirable neighborhoods, many with smaller houses on smaller lots, is already happening.

Huntsville Trends

The City of Huntsville was fortunate that its housing market fared better than the nation as a whole during the recent economic downturn. Even so, the slowdown was felt in the community, but much later than in most of the nation, and the overall decline in sales and prices was not as steep.

From a physical standpoint, the Huntsville residential market has been, and continues to be, largely suburban in nature. The for-sale market is overwhelmingly single-family. Newer neighborhoods on the fringes of the City have typically been the most popular, with a few notable exceptions, such as the older but highly sought-after Blossomwood neighborhood. In general, within the City, the health of a particular neighborhood is driven by two factors: the perceived quality of the schools and the proximity to employment and to goods and services.

Takeaways

Assets

- The large government workforce at Redstone Arsenal provides stability for the local housing market.
- The City of Huntsville has a sizable portion of vacant land within its borders that is suitable for residential development.
- The City of Huntsville has the necessary infrastructure in place for future residential development.

Challenges

- Some potential homebuyers appear to be avoiding the City of Huntsville because of uncertainty over the public schools.
- Large sections of the City have aging housing stock with few signs of reinvestment.
- Because the housing market is so predominately single-family, there is not much opportunity for buyers who would prefer another housing type.
- In general, there is not a lot of residential stock near the established downtown core.

Summary: Retail Market

National Trends

Retailers were especially hard hit during the recent economic downturn. Even though the economy has returned to modest growth, retailers are feeling pressure from changing consumer habits and from online retailing. The result is that many retailers are trimming their store counts and/or moving to smaller prototypes. In addition, large regional malls have lost favor with consumers and many retailers are unable or unwilling to pay the very high rents to locate in an enclosed shopping center.

Most experts agree that the United States has had too much retail space for some time. As weaker retailers shrink or close completely, it is likely that a great deal of vacant retail space will be created with few viable tenants to fill that space.

Huntsville Trends

While the Huntsville retail market serves a fairly affluent trade area, it is not immune from the prevailing trends in retail. Overall, the retail market is healthy, and new entrants, such as Whole Foods, demonstrate this health. However, the City has several shopping centers that suffer from high vacancy. One can look at the current state of Madison Square Mall and its surrounding shopping centers to see a possible future for some of the City's other retail nodes if too much new retail space is built.

Takeaways

Assets

- Per capita consumer expenditures for the City of Huntsville are almost 109% of the national figure. This makes the area attractive to a variety of national retailers.
- The City of Huntsville provides destination retail for the entire region through Parkway Place Mall, Bridge Street Town Centre, and a variety of big box retailers.
- It is expected that population growth will continue, which will allow for moderate growth of convenience retail.

Challenges

- It is unlikely that Madison Square Mall will continue to function as a regional shopping center and will likely ultimately shut down completely. The weakness of this center has already had a negative effect on the surrounding retail, with further deterioration likely.
- It is likely that the local retail market is reaching saturation. In general, retailers are opening fewer stores, and most retailers who want to be in the Huntsville market already have locations there.
- There is a lack of historic neighborhood commercial nodes with small-scale, neighborhood-serving retail uses.
- While the overall market is healthy, there are several areas with high vacancy and disinvestment.

Summary: Office Market

National Trends

During the recent economic downturn, office tenants learned how to function with much less space per employee. The amount of office space per worker declined markedly in recent years. This rapid decrease in the amount of space per employee was achieved through teleworking, space-on-demand, and co-working. While it is likely that there will be some rebound in office space per employee in the future, it will probably still be less than what was considered the norm a decade ago.

Huntsville Trends

The Huntsville office market is largely centered in downtown Huntsville and at Cummings Research Park. Cummings Research Park has the much larger office concentration and has a strong focus on technology. Downtown Huntsville has a more traditional office tenant base with an emphasis on local government, law, and finance.

Engineering firms have been drawn to Huntsville because of contract work with the federal government at Redstone Arsenal. These firms have given the City of Huntsville a critical mass of Class A office space and a highly trained workforce. This critical mass is important, because, unlike other similar-sized cities, it gives Huntsville the ability to attract other non-defense related Class A office tenants. In general, it is very difficult to attract Class A office tenants without a strong base of other office users already located in the area.

Because of its dependence on federal contractors, the local office market was greatly affected by budget freezes and concerns about future budget cuts. Many firms are now unwilling to sign a lease for office space for longer than their current federal contract. As a result, vacancy rates have been increasing and are at all-time highs.

Takeaways

Assets

- Redstone Arsenal and its contractors provide a strong base of office employment for the Huntsville area.
- Huntsville has a highly-educated workforce, which is necessary for successful office recruitment.
- Cummings Research Park has a well-known “brand” and provides a high-quality office environment that is attractive to many firms.
- With continued growth of residential and retail, downtown Huntsville has the opportunity to become a vibrant urban center that would be attractive to a variety of regional and national office tenants.

Challenges

- The Huntsville office market currently suffers from high vacancy rates.
- Even though there have been successful efforts to diversify the local office employment base, the market is still largely driven by Redstone Arsenal and its affiliated contractors. As a result, federal government budget cuts could adversely affect the local office market.
- The City of Huntsville has a significant number of aging office buildings, which are likely to become functionally obsolete without major reinvestment.
- In order to remain successful, Cummings Research Park will have to maintain its unique status by continuing its development controls while also becoming flexible enough to be competitive in today’s marketplace.
- The City of Huntsville does not have a great deal of existing office space that represents the more up-to-date development forms, such as co-working space and mixed-use developments.

Summary: Industrial Market

National Trends

For many years, industrial employment in the United States has decreased even while industrial production has grown. This is largely the result of automation and the movement of labor-intensive and low-skill production overseas. However, in recent years, industrial employment has begun to stabilize with some companies even moving production back to the United States. This phenomenon of "re-shoring" is the result of growing labor costs overseas, increased transportation costs, and a desire for more control of production and quicker turnaround times.

While a great deal of the industrial uses in the United States have been moving towards large-scale models that provide greater efficiency, there has also been a simultaneous movement in the market towards very small production. The "Makers Movement" describes a return of sorts to American manufacturing, innovation, and ingenuity. It is a subculture of "do-it-yourselfers" powered by technology who see life through an open-source lens. The term maker today is intended to be widely encompassing, including artisans, craftsmen, innovators, engineers, and creators of everything from foods to multimedia to home goods to computer applications.

Huntsville Trends

The City of Huntsville has had a great deal of success in attracting industry, and the vast majority of these firms are considered to be "clean" industry, with little negative impact on surrounding land uses. Unlike many communities where current industrial uses are largely distribution facilities, Huntsville has been successful in attracting "value-added" industry; these are the industrial uses that provide the largest number of jobs.

Industrial development is spread across the City, with major concentrations located near the Jetplex/Airport area, in Cummings Research Park, in north Huntsville, and in the Chase industrial area in northeast Huntsville. While attracting industrial growth is always a difficult proposition, Huntsville's skilled workforce, strong infrastructure, and experienced development teams make it likely that the area will continue to see significant industrial growth for the foreseeable future.

Takeaways

Assets

- The Huntsville area has a skilled workforce that is very attractive to value-added industrial users.
- Huntsville has the bulk of the necessary infrastructure and access to transportation to support large-scale industry.
- There are a variety of sites available for new industrial development throughout the City.
- The City of Huntsville has a unique opportunity to benefit from the Makers Movement through the creation of spinoff companies from local engineering work and through the local artisan community.

Challenges

- Because industrial jobs have become scarcer in the United States, there is fierce competition from other communities for every industrial prospect.
- Most of the large available industrial sites are on the edge of the City, which puts them further away from goods and services for employees.
- For small-scale, artisan production, such as Makers, there are challenges to finding urban locations that allow such uses near the amenities desired.

Summary: Future Direction

The City of Huntsville faces a variety of questions as it prepares for the future in terms of real estate market performance. The answers to these questions will determine the character and quality of the built environment for decades to come.

What is the role of downtown Huntsville?

In the recent past, downtown Huntsville has functioned primarily as an employment and government center. While there have been efforts to bring back a retail component, most of these efforts have focused primarily on entertainment uses. With proper planning and guidance, the downtown could also serve as a central gathering place for the community and include destination retail and dining that attracts all age groups from throughout the metro area.

Should some future growth be directed towards the core of the City instead of the fringes?

Historically, the growth pattern of Huntsville has pushed most new development further and further from the core of the City. As a result, many of the closer-in areas are suffering from blight and disinvestment. If the City wants a certain proportion of growth to take the form of reinvestment in existing communities, it will likely require a concerted effort and possibly financial incentives.

Does the City want to diversify development to recognize new trends in living and working?

The City of Huntsville has largely been built in a suburban development pattern. For several decades, this type of development was well-tuned to consumer preferences. However, many people, especially those of the Millennial generation, are now looking for a different lifestyle. Some of these changes include a desire to live close to work, a preference for communities with a walkable mix of uses, and often a desire to rent their home instead of owning it. Because Huntsville does not have a lot of historic areas that naturally have these attributes, it will be more difficult for the City to satisfy these new consumer preferences without a great deal of new development with new product types.

Will Huntsville actively pursue both small-scale and large-scale development?

When looking at industrial and office development, the City of Huntsville has worked hard and been very fortunate to attract many prominent companies with large employment numbers. However, entrepreneurs and small businesses account for the majority of employment in the nation and are projected to continue to be the foundation of the American economy. The same indicators are evident in Huntsville. It will be crucial to recognize the importance of small enterprises in creating a vibrant and sustainable community

Will the City take the lead in creating smaller, neighborhood-scale commercial nodes with a "sense of place?"

Huntsville lacks the historic, neighborhood-based commercial areas typically found in most cities because of the dominant suburban development pattern. These walkable nodes provide character for a neighborhood and help to build a sense of community and generally create deeper and longer investments. Because these areas do not currently exist in the City of Huntsville, it would take significant planning and effort to create them.

Residential Market

National Context

Historically, a lack of easy transportation led people to typically live in close proximity to their work and to goods and services. This meant that most cities were fairly dense, with homes typically built on small lots and located as close to downtowns, factories, or neighborhood commercial centers as possible. However, the rise in automobile ownership in the early twentieth century allowed residential development to gradually spread out. This trend accelerated in the post-World War II period as a rise in car ownership and the construction of new highways allowed residential neighborhoods to develop far from the city centers. Another change to the residential landscape was the increasing separation of uses, with commercial development often separated from residential. The typical homeowner could no longer walk to work or to stores. These changes in home buyer preferences led to a decades-long boom in residential construction in mostly suburban areas as massive swaths of formerly vacant land were transformed into new neighborhoods. This development pattern provided a great deal of housing that was affordable for the majority of the population.

After decades of fairly steady growth, there was a major decline in home sales and residential construction during the economic downturn of recent years. Many economists believe that the crash in the housing market was one of the main contributors to the onset of "The Great Recession." While the overheated markets of the West coast, the Northeast, and Florida were the first to feel the effects of the downturn, the market meltdown eventually reached almost every region of the nation. A massive number of foreclosures brought down values in many areas of the country, and it has taken several years to begin to see a return to a more normal housing market. Fortunately, the housing market appears to have finally reached bottom and is now beginning to slowly improve. For 2013, the annual total for existing home sales was 5.09 million, up 9.2% from the 2012 figure of 4.66 million.[1]

[1] Source: National Association of Realtors.

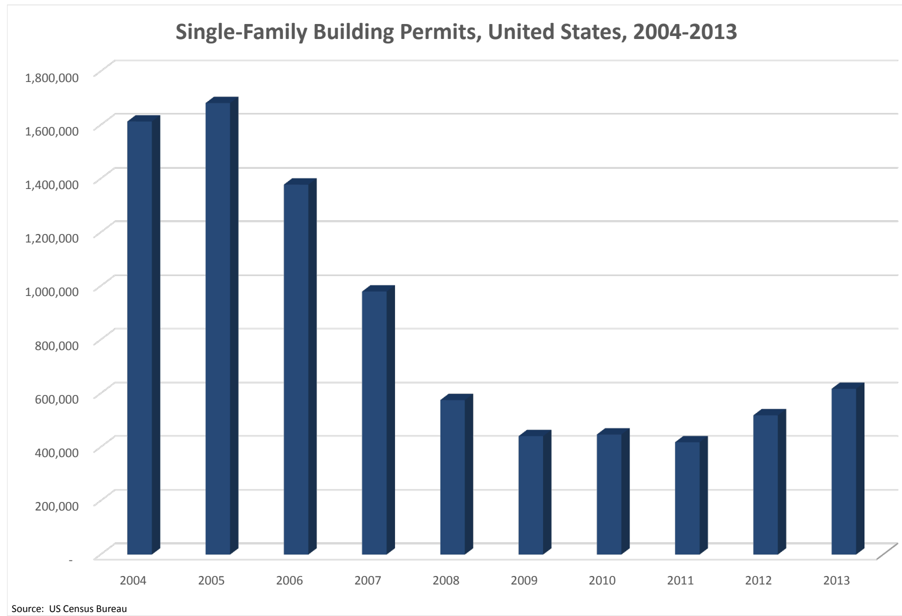
While the overall trends have been positive, the housing market still shows signs of volatility. Sales of existing homes dropped 5.1% to a seasonally adjusted annual rate of 4.62 million in January 2014 from 4.87 million in December 2013. This represented the slowest level of activity since July 2012 when the figure was 4.59 million. "Disruptive and prolonged winter weather patterns across the country are impacting a wide range of economic activity, and housing is no exception. Some housing activity will be delayed until spring. At the same time, we can't ignore the ongoing headwinds of tight credit, limited inventory, higher prices and higher mortgage interest rates. These issues will hinder home sales activity until the positive factors of job growth and new supply from higher housing starts begin to make an impact."[2]

According to the National Association of Realtors, the median sales price for existing homes was $197,100 in 2013. This represented an 11.5% increase over the 2012 median sales price of $176,800, which was itself 6.4% higher than the 2011 median price of $166,100. While median sales prices have shown consistent improvement, it is important to note that the 2013 figure was still 14.5% below the all-time high of $230,400 achieved in July of 2006.

The effects of the economic downturn are clearly seen when looking at building permits on the national level. The following chart depicts single-family building permits for the past ten years, and it shows graphically the steep decline that happened as the recession took hold.

After reaching a high of 1.68 million building permits issued in 2005, the number of permits began a steady decline. During this time period, the fewest number of permits was issued in 2011 at 418,500. This represented a decline of 75.1% from the 2005 figure. Over the past three years, the number of single-family permits has begun to increase. In 2013, the figure was 617,500 permits, which was 47.6% greater than the 2011 figure. It was, however, still 63.2% below the number of permits issued in 2005.

It is likely that there has been a permanent structural change in the housing market. Even with economic recovery, the future housing market will likely look different from the market before the crash. More people are renting by choice. Many in the millennial generation do not view home ownership as a good investment. Others now see home ownership as a limit to mobility and job marketability. In addition, an aging population will create more empty-nester



[2] Source: "Existing-Home Sales Drop in January While Prices Continue to Grow." National Association of Realtors; February 2014..

households with less desire for large houses on large lots. These empty nesters are often looking to downsize and have a growing willingness to rent instead of own. Many people are also seeking to improve their quality of life by living closer to their place of employment or closer to goods and services. There is also a growing trend of buyers interested in smaller homes with access to more community space. The result of these changing market forces will likely lead to a long-term surplus of large homes, especially in exurban areas.

The United States housing market was greatly affected by the Great Recession. While the housing sector has shown marked improvement, it still has not regained all of its former momentum. Even after recovery, the national housing market will likely look very different in the future, with more people choosing to rent and a growing popularity of smaller homes closer to employment and services.

Greater Huntsville Overview

Residential Sales[3]

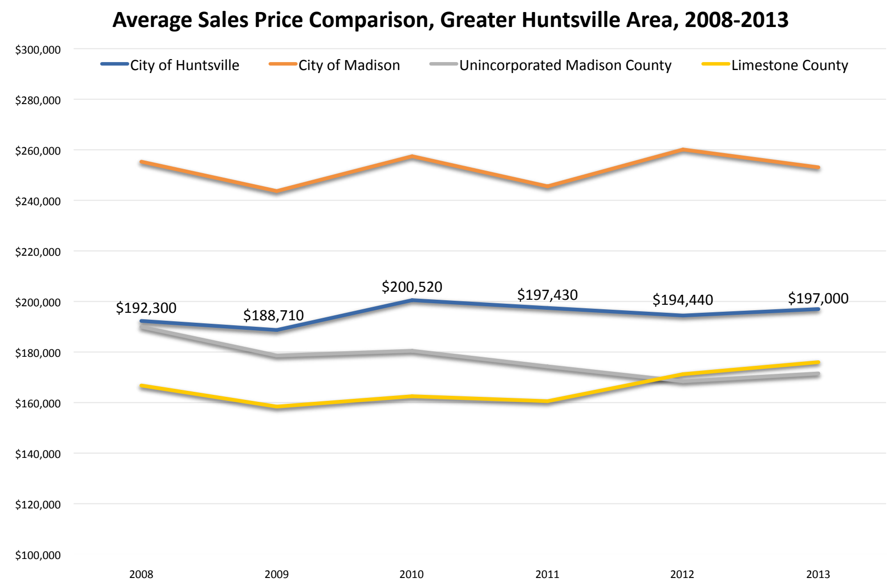
The Huntsville metropolitan area includes Madison and Limestone Counties. In 2013, approximately 6,430 residential units were sold in the two counties, with an average sales price of $193,150. This represented an increase in the number of homes sold from 5,930 in 2012, and a slight increase in the average sales price from the 2012 figure of $192,440. Of the homes sold in 2013, approximately 5,390 were sold in Madison County and 1,040 in Limestone County. The average sales price in Madison County was $196,460, while the average for Limestone County was a much lower $175,990.

Madison County's residential market can be broadly divided into three submarkets: the City of Huntsville, the City of Madison, and the remainder of Madison County outside of those two cities. When comparing these areas, the City of Madison had the highest average sales prices by far over the past several years. This is likely a result of the City's highly regarded school system and its largely newer housing stock. Average sales prices in the City of Huntsville are consistently lower than the prices for the City of Madison, but are somewhat higher than for unincorporated Madison County, as seen in chart on the next page In 2013, the average sales price in the City of Madison was $253,070. For the City of Huntsville the figure was $197,000, and for unincorporated Madison County it was $171,540.

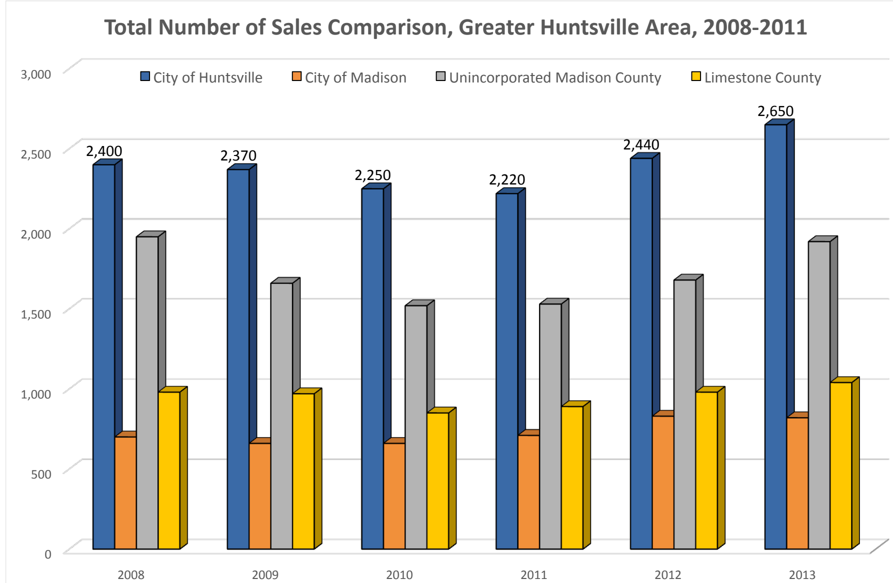
[3] Source: Valley MLS and the Alabama Center for Real Estate.

In 2013, approximately 5,390 homes were sold in Madison County. Of this total number sold, almost 2,650 were sold in the City of Huntsville. An additional 1,920 were sold in unincorporated Madison County and 820 were sold in the City of Madison. In every year since 2008, more homes were sold in the City of Huntsville than any other portion of the metro area. The number of homes sold in Huntsville ranged from a low of 2,220 in 2011 to a high of 2,650 in 2013, as shown in the chart on the following page.

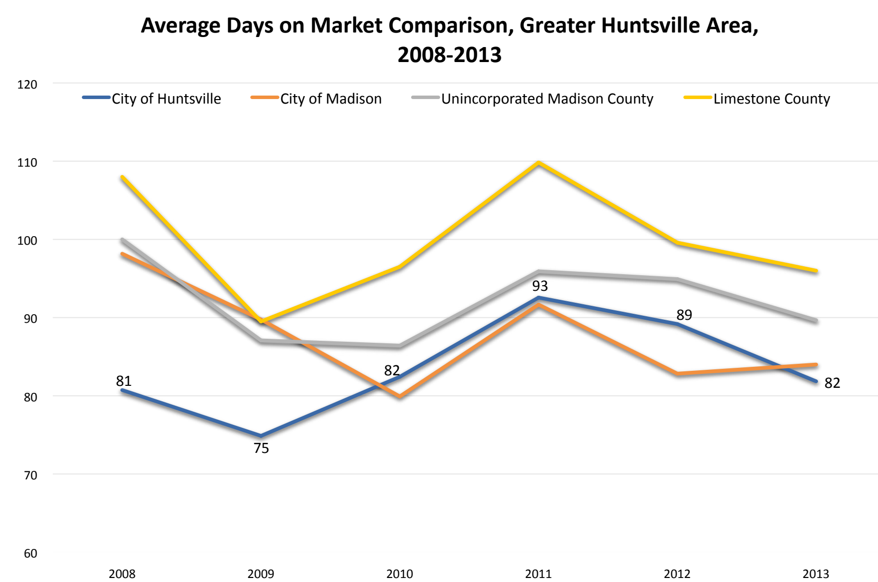
In 2013, the average days on the market in the City of Huntsville was 82 days, which was slightly lower than the figure for the City of Madison (84 days), unincorporated Madison County (90 days), and Limestone County (96 days), illustrated in the chart on the following page. Since 2008, the average days on the market in the City of Huntsville has ranged from a low of 75 in 2009 to a high of 93 in 2011.



Source: North Alabama Multiple Listing Service



Source: North Alabama Multiple Listing Service



Source: North Alabama Multiple Listing Service

Multi-Family Rental

Each year, Rock Apartment Advisors surveys the conventional apartment communities in the Greater Huntsville area with sixty or more units. At mid-year 2013, they surveyed 83 apartment communities with over 18,000 units. They found an occupancy rate of 91.6%, which was down 1.3% from mid-year 2012. The average quoted rental rate was $689. This represented a decline of 0.2% over the prior year. During the year, 355 units were delivered in the market, but the area experienced a negative absorption of 30 units. At mid-year 2013, there were five market rate properties under construction with 914 units and one 56-unit tax credit affordable housing development. Four of these were located in the West Huntsville submarket, with one each in the Downtown Huntsville and Madison Area submarkets.

Overall, the apartment market in the Huntsville area has shown signs of weakness. According to local brokers, this weakness is largely the result of sequestration and its effect on the federal workforce at Redstone Arsenal and on government contractors.

City of Huntsville

Unlike some communities, the City of Huntsville was developed largely after the automobile became the dominant form of transportation. The result is a community with an overwhelmingly suburban development pattern. Most residential development in Huntsville takes the form of single-family detached housing or garden apartments. The oldest housing in the City is located closest to the downtown area. The most active areas for new home construction are located in the far eastern and western areas of the City. There is also fairly significant new housing development in south Huntsville. There is little new residential development in the core and northern portions of the City.

Certain neighborhoods with older housing stock are growing in popularity and seeing significant renovation and rehabilitation; this is especially true of the Blossomwood neighborhood. Local agents credit the area's success to its close-in location, historic architecture, and highly regarded schools. There is also renovation taking place in some of the older neighborhoods in south Huntsville. While not as extensive as Blossomwood, the popularity of the area's schools is encouraging new home owners to purchase older homes in the area. The Monte Sano neighborhood is also seeing a good bit of reinvestment in existing homes.

There has been a small, but significant trend towards more urban and/or mixed-use housing in the City of Huntsville. The Belk Hudson Lofts are located in the heart of the historic downtown and offer 75 units for rent. The Artisan apartments at Twickenham Square opened this year in the medical district close to downtown and will be part of a new development with medical office, a hotel, a Publix grocery store, and a variety of specialty shops. Sealy Management, the developer behind the Belk Hudson Lofts, has plans to develop another downtown apartment property. This development, the Avenue, will include approximately 200 units and 20,000 square feet of retail space. While located far from downtown, the Providence neighborhood in west Huntsville offers historically inspired single-family homes and apartments in a dense, walkable neighborhood with retail, services, a hotel, and a school.

Residential Building Permits

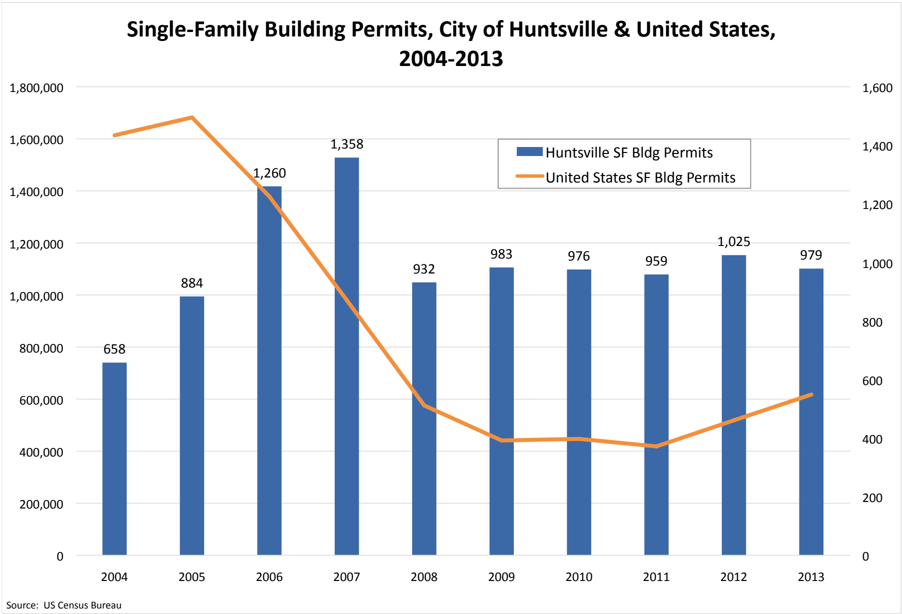
Building permits are generally a good indicator of future strength or weakness in the housing market. Residential developers typically adjust their pace of construction based on the level of interest that they are seeing from potential buyers or renters.

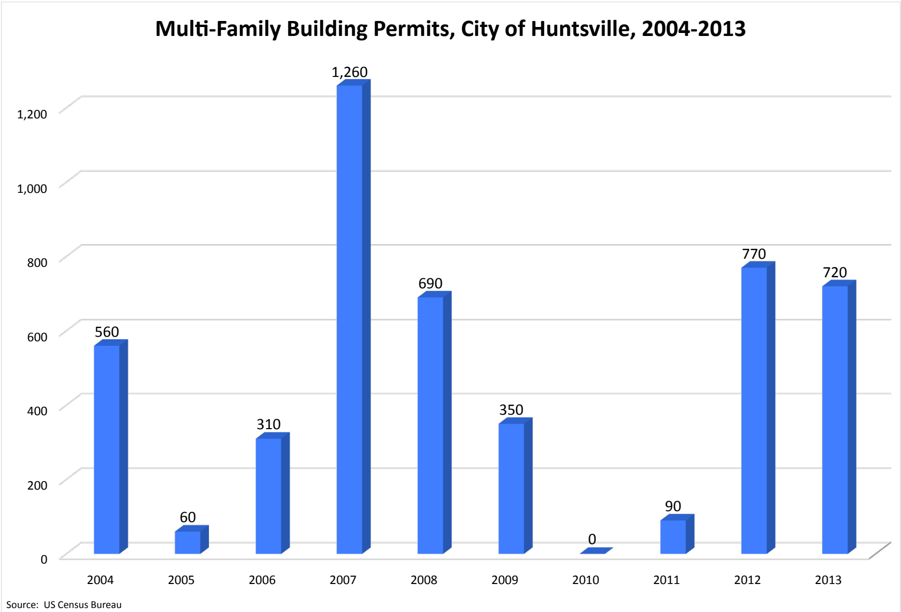
When looking at the last decade, the number of single family building permits issued in the City of Huntsville peaked in 2007 at approximately 1,360. The number of permits issued then decreased by 31.6% in 2008 when 930 permits were issued. However, unlike the national economy, the number of building permits stabilized, never falling below 900. The adjacent chart compares the trends in building permits for the nation and for the City of Huntsville.

When looking at the chart, it is clear that the Huntsville housing market continued to grow into the year 2007, while the national market began a steep decline in 2006. Although there was a significant decrease in 2008, the number of permits issued in the City of Huntsville stabilized and never fell below the 2005 figure of 880 permits. According to local agents, the stability provided by the jobs at Redstone Arsenal and with government contractors allowed the Huntsville area to largely avoid the initial effects of the economic downturn. Sequestration and the tightening of the federal budget did eventually lead to a slowdown in the local housing market. However, this slowdown was milder than in many other areas of the nation. While there were effects from the federal budget sequestration, the market was not impacted as negatively as many had initially feared.

As can be seen in the adjacent chart, the number of building permits for multi-family units has been much more volatile in the City of Huntsville. This is not surprising, as just one large multi-family project can greatly increase the number of units that are permitted in any given year.

The number of multi-family permits peaked in 2007 at approximately 1,260. There were no permits issued for multi-family units in 2010 and only 90 in 2011. This figure increased dramatically in 2012 when permits for 770 units were issued, followed by 720 permitted units in 2013.



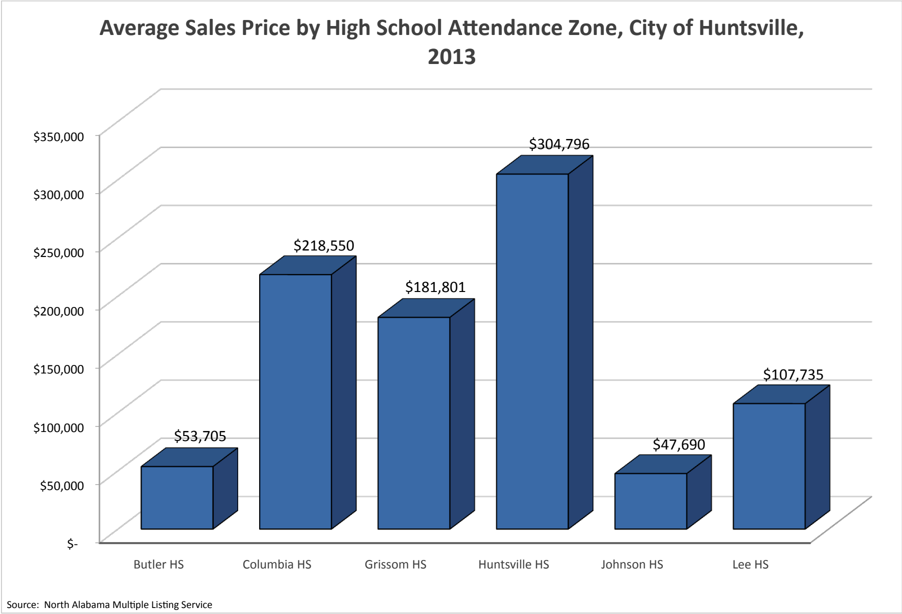


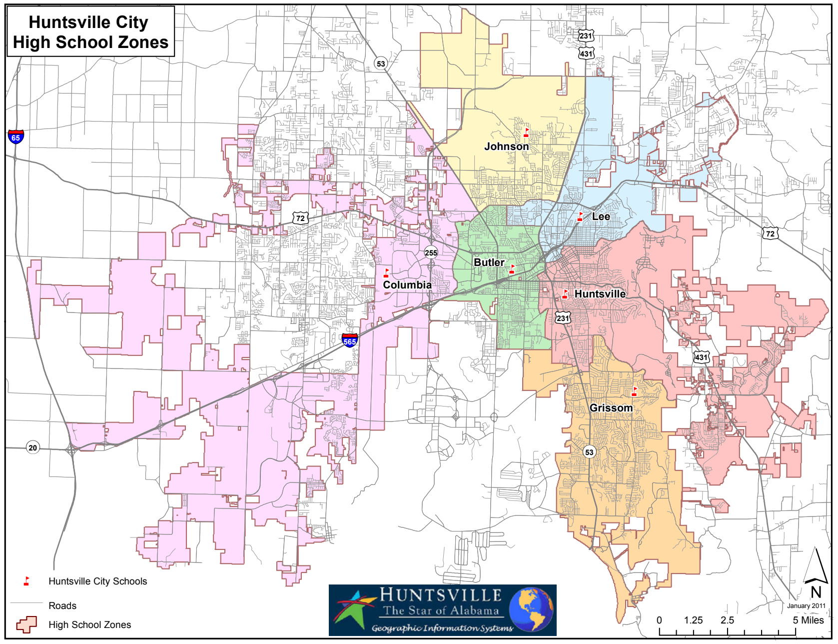
Residential Sales

In 2013, approximately 2,650 homes sold in the City of Huntsville with an average sales price of $197,000. At the end of the year, there were approximately 1,940 housing units on the market, representing approximately 9.2 months of inventory, and the average days on the market was 82.

Local real estate agents report that home buyers perceive a vast difference in the quality of schools across the City of Huntsville. Typically, the Huntsville High School and Grissom High School districts are viewed as having the most desirable schools. Average sales price does vary greatly across the City by school zone, as illustrated in following chart. While the desirability of the local schools does appear to impact the average sales price, it is also important to note that the quality and age of the housing stock vary greatly across the various school zones as well.

The Huntsville High School district has the highest average sales price by far at $304,800. This is not surprising when one considers that the area includes the newer homes in far eastern Huntsville and the gentrified Blossomwood neighborhood close to downtown. The Columbia High School zone has the second highest average sales price at $218,600. This school zone covers western Huntsville to the





north, south, and west of the City of Madison and includes a great deal of new neighborhoods. While local agents did not list Columbia as a top choice generally for home buyers, the area's large number of new neighborhoods drives the average sales price higher.

The Grissom High district has the third highest average sales price at $181,800. There are fewer new neighborhoods in this district, and most of the home sales would be resales of existing, older housing stock. Nevertheless, the area's average sales price remains fairly strong. This is likely the result of the consistently positive reputation of the area's schools. The Lee High School district has an average sales price of $107,700. The Lee High district includes a very wide variety of neighborhoods, including those with older, smaller homes and new neighborhoods with mountaintop views. The average sales price in the Butler High School zone is $53,700. The Johnson High School district has the lowest average sales price by far, at $47,700.

In 2013, the highest number of homes sold was in the Huntsville High School district with approximately 710 sales. The second highest number of sales was in the Columbia High zone with 650 sales, and Grissom High zone followed close behind with 640 sales. There were approximately 235 sales in the Lee High School district. The Johnson High zone had the fewest sales with only 205, and the Butler High zone had just slightly more sales at 210.

The Lee High School zone had the longest average days on the market at 94. The Huntsville High district was only slightly less at 92 days. The Columbia High zone had the shortest average days on the market at just 63. The other three high school zones fell somewhere in between, with an average of 78 days in the Johnson High School zone, 85 days in the Grissom High zone, and 87 days in the Butler High zone.

Condominium Sales

Condominium sales in the City of Huntsville represented just 3.6% of total home sales. This indicates that Huntsville is largely a single-family market. While small, the condominium market has remained fairly stable. Over the past five years, sales of condominiums has ranged from a low of approximately 65 in 2011 to a high of 105 in 2009. The average sales price has fluctuated in the low $100,000s. Over the five-year period, the lowest average sales price was $110,120 in 2009, and the highest was $131,770 in 2013.

In December 2013, there were approximately 85 condominium units for sale in the City. This represented about 10.5 months of inventory. Condominiums in Huntsville are typically located in garden-style structures and are located throughout the City. There is also a high-rise condominium project in downtown Huntsville known as the 301 East

High School	Number of Sales	Average Sales Price	Average DOM
Butler HS	210	$53,700	87
Columbia HS	650	$218,600	63
Grissom HS	640	$181,800	85
Huntsville HS	710	$304,800	92
Johnson HS	205	$47,700	78
Lee HS	235	$107,700	94

Source: North Alabama Multiple Listing Service.

Condominiums	2009	2010	2011	2012	2013
Number Sold	105	85	65	85	95
Average Sales Price	$110,120	$130,130	$114,910	$115,580	$131,770

Source: North Alabama Multiple Listing Service.

condominiums. This project was built in 2005 and has 21 units. Units in this building typically sell from the mid-$300,000s to the low-$400,000s.

According to local agents, the market for condominiums in Huntsville is currently fairly limited. However, several agents predicted that there could be a market for condominiums in downtown if the area adds more retail and restaurants.

Multi-Family Rental

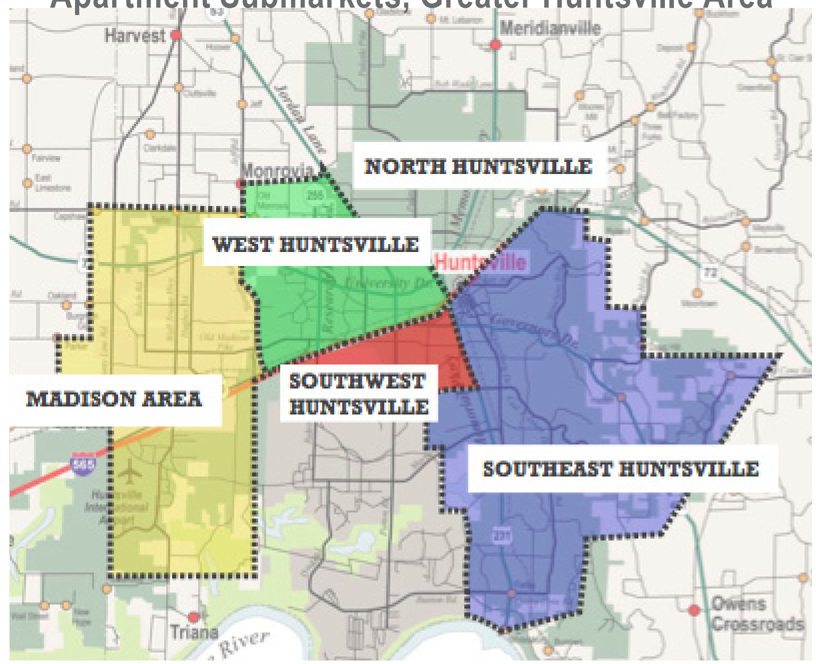
Rock Apartment Advisors divides the Huntsville apartment market into five subareas: North Huntsville, Southeast Huntsville, Southwest Huntsville, West Huntsville, and the Madison Area. While the Madison Area submarket includes the City of Madison, it also includes several apartment communities that are located within the City of Huntsville.

The West Huntsville submarket has the most units, at approximately 7,520. The North Huntsville submarket has the least, with just 530 units. From mid-year 2012 to mid-year 2013, two submarkets had negative absorption: Southeast Huntsville (-145) and North Huntsville (-15). The other submarkets had positive absorption: Southwest Huntsville (15), Madison Area (25), and West Huntsville (90).

The Madison Area had the highest occupancy rate at 94.1%. The North Huntsville submarket had the lowest at 84.4%. The occupancy in Southeast Huntsville was 91.2%. In Southwest Huntsville, the figure was 90.5%, and occupancy was 90.9% in West Huntsville.

Rental rates vary a good bit across greater Huntsville. The highest quoted average rental rates were found in the Madison Area at $760. The other submarkets fell in between with West Huntsville at $720, Southeast Huntsville at $660, and North Huntsville at $495. In Southwest Huntsville,

Apartment Submarkets, Greater Huntsville Area



Source: Rock Apartment Advisors

Submarket	Occupancy	Units Absorbed	Average Rental Rate Quoted	Average Rental Rate Effective
Southeast Huntsville	91.2%	-145	$660	$645
Southwest Huntsville	90.5%	15	$475	$465
North Huntsville	84.4%	-15	$495	$485
West Huntsville	90.9%	90	$720	$690
Madison Area	94.1%	25	$760	$750
Huntsville/Madison	**91.6%**	**-30**	**$690**	**$670**

Source: Rock Apartment Advisors.

the figure was only $475.

The West Huntsville submarket has had the most units built since 2000, with almost 2,600 units constructed. There have been no new units constructed in Southwest Huntsville or North Huntsville in that timeframe. Conversely, the Madison Area submarket has little significant multi-family housing that was built prior to 1980. Properties in the West Huntsville and Madison Area submarkets benefit from their close proximity to Redstone Arsenal and Cummings Research Park. Communities located within the City of Madison benefit from that City's highly-regarded school system.

A comparison of building permit data demonstrates that the slowdown in new home construction took place later in Huntsville than in the nation as a whole and the decrease was not as deep.

Home sales statistics demonstrate that the strength of the local housing market varies greatly across the City. The perceived quality of the neighborhood schools has a strong impact on home values.

Overall, the multi-family rental market in Huntsville has been stable with some pressure from new deliveries, sequestration, and the psychological effects of the national recession.

City Subareas

Downtown

The Downtown subarea includes the Central Business District and has not historically included a great deal of residential space. However, newer developments such as the Belk-Hudson Lofts and the Artisan apartments at Twickenham Place are beginning to bring residential growth to the historic downtown. The Belk-Hudson Lofts was the first major residential project downtown, and it has performed well. This subarea also includes well-maintained historic neighborhoods located to the east of the central business district.

Downtown

Downtown

East Central

The East Central subarea includes many older, but highly desirable neighborhoods, such as Blossomwood. The area also includes mountain top communities, such as Monte Sano. While this subarea is largely built-out, many of the single-family homes have undergone major renovations and/or expansions. According to local agents, the subarea is desirable because of its close-in location and its historic architecture and development patterns. Schools are also an important draw for those neighborhoods located in the Huntsville High district.

West Central

The West Central subarea includes many older neighborhoods, some struggling with disinvestment. However, the area's location near Redstone Arsenal and the University of Alabama Huntsville provides a large pool of potential residents. The subarea includes many smaller, older wood frame houses that are often referred to as "mill village" housing. Closer to the university, the neighborhoods are more likely to consist of ranch style homes built in the mid-twentieth century.

Southeast

The Southeast subarea consists largely of older ranch-style neighborhoods from the 1960s and 1970s. Even with its older housing stock, the area remains popular because of its location near Redstone Arsenal and because of the strength of Grissom High and its feeder schools. There is a good bit of new home construction in new neighborhoods in the western and southern portions of the subarea.

East Central

East Central

West Central

Southeast

Southeast

Photos are meant to be representative of the character of residential in subarea.

East

The East subarea is located over the mountain from the rest of Huntsville. It includes some of the newest housing in the City and some of Huntsville's most upscale neighborhoods. The very large Hampton Cove residential development is located in this subarea and is responsible for a great deal of the residential growth in this area over the last two decades.

North

The North subarea consists largely of fairly small ranch-style homes. Overall, there has been a lack of new investment in the area, and the housing stock is generally becoming less desirable. A perceived deficit in the quality of the local schools makes new home construction in the area very difficult.

Northwest

The Northwest subarea contains a wide variety of residential development. On the east side, closest to downtown, many of the neighborhoods are older and showing signs of disinvestment. Further to the west, new neighborhoods, such as Providence, are performing well and achieving high sales prices.

Southwest

The Southwest subarea wraps around the eastern, southern, and western sides of the City of Madison. It includes the Research Park area, the newly annexed areas west of Madison, and the areas south of the airport. Currently, there is a great deal of new residential construction located between the airport and the City of Triana. New housing in the area ranges from starter homes to those that are large and upscale. According to local agents, many new home buyers are drawn to this area because of its proximity to the Redstone Arsenal.


East


North


North


Northwest


Northwest


Southwest

Photos are meant to be representative of the character of residential in subarea.

Residential growth in the City of Huntsville is largely taking place to the east and the west, far from downtown, with a smaller amount of development in the south, and virtually no growth in the north. Some older areas are beginning to see reinvestment, most notably, the Blossomwood neighborhood.

Planned Residential

There were several new subdivisions or expansions of existing subdivisions approved in 2013.

- In East Huntsville, 85 lots were approved in McMullen Cove, 33 lots in River Ridge, 66 lots in Sanctuary Cove, and 41 lots in Grayson Place at Sanctuary Cove.
- In the Southeast area, 36 lots were approved for the Inspiration on Green Mountain development and 40 lots were approved in Oak Grove.
- In the Southwest area, 35 lots were approved in Lake Forest – Oakwood and 26 lots in Nature's Landing at the Reserve.
- In Northwest Huntsville, 61 lots were approved at Legendwood and 32 lots in Cross Creek.

In addition, three apartment communities were approved in 2013.

- In East Central Huntsville, the Legacy at Jones Farm Apartments will have 248 units.
- In Southwest Huntsville, Avalon Apartments at Ware Park will have 196 units, and The Bridges in Research Park Apartments will have 156 units.

Residential Market Dynamics

Without any intervention, the local residential market is likely to continue current development trends for the foreseeable future. Newer subdivisions and apartments will be built in the newly annexed fringes of the City, and many, if not most, older neighborhoods will age and decline. The rate of this decline will depend on the perceived quality of the schools in the area and the proximity to employment and to goods and services. Without the draw of good schools or superior nearby amenities, there is little reason for home buyers to choose an older neighborhood instead of a newer one. Certain older neighborhoods to the east of downtown will likely continue to be popular and to see continued reinvestment because of their proximity to the central business district and due to the popularity of Blossomwood Elementary School and Huntsville High School.

City's Potential Role

To create a more vibrant and stable residential market, the City should encourage more housing development closer to the core of the City. This should include new multi-family housing in the downtown area, along with new townhomes and dense single-family homes in the areas adjacent to downtown. The City should also focus on the reinvestment in existing neighborhoods, especially those with historic character such as the mill villages. In addition, the owners of older, run-down multi-family communities throughout the City should be encouraged and/or incentivized to rehabilitate or rebuild their properties.

Retail Market

National Context

The retail market is never static. It is always shifting to react to changing consumer preferences and lifestyles. Until the mid-twentieth century, downtowns were the center of retail commerce. By the 1950s and 1960s, retailers began to follow their customers to the new suburban neighborhoods in outlying areas. At first, this suburban retail consisted mainly of stores selling convenience items close to home. Large shopping trips still took place downtown.

But soon even the large downtown department stores were opening branches on the outskirts of town. The advent of the enclosed mall spelled the end of downtown's retail dominance. These shopping centers provided all of the stores and services previously found in the downtown, but did so in a climate-controlled environment with expansive and easy parking.

For several decades, the dominance of the regional mall seemed unshakeable. However, by the 1980s, there was a new phenomenon on the retail scene, large stores specializing in a niche product area. Often referred to as "category-killers" or big box retailers, these stores took what had been one individual department of a larger store and created a superstore with a deeper product selection. These stores began to group together in large, outdoor shopping centers, which came to be known as "power centers." Over time, this led to a migration of non-fashion tenants out of the enclosed malls. Most department stores also gradually dropped their hard lines, focusing almost entirely on clothing and "soft" home goods. The growing competition from new retailers led to a massive consolidation in the department store industry, with the local department store all but disappearing.

Just as power centers pulled away the discount and variety retailers from the enclosed malls, a fairly new phenomenon, the "lifestyle center", has begun to compete for the higher-end specialty shops. Lifestyle centers are outdoor shopping centers consisting largely of the fashion retailers who were previously found only in enclosed malls, such as the

Gap, Victoria's Secret, and Express. Sometimes these centers include a department store anchor, but often they do not. This new format provides a lower-cost alternative for the retailer and an easier, quicker shopping experience for the customer. These new lifestyle centers have led to an erosion in the stores available to fill small shop space in the regional malls.

While the indoor regional mall is still a powerful force in retail, the market dynamics mentioned above are likely to cause a sizeable reduction in the number of these centers. Over the next decade, it is likely that only the strongest will survive and thrive. If current trends continue, many small and mid-sized metro areas may no longer have an enclosed mall.

While enclosed malls represented one segment of the suburbanization of retail, stores selling everyday convenience items also abandoned downtowns for outlying areas. During the 1960s and 1970s, discount stores and grocery stores blanketed the country. At first, these stores were typically run by regional chains with a few national players. Over time, one regional discounter, Walmart, began to overtake its rivals and to gradually dominate this market segment, along with Kmart and Target. Consolidation also took place in the grocery segment as regional chains merged and weaker competitors faltered. Whereas many metropolitan areas once had at least four or five grocery chains, most now have only one or two large-scale chains competing with Walmart.

The retail market in the United States continues to face enormous pressures. Declining incomes from the "Great Recession" led to a pullback on discretionary purchases. In addition, growing internet retail sales are pulling customers away from "brick-and-mortar" stores. The result has been failing regional malls, vacant strip center space, and a decline in the number of competitors in the big box retail market. Examples can be seen in the liquidation of chains.

Overall, it is expected that the bricks and mortar retail sector will continue to shrink. Most large-box stores are losing market share to online retailers and many are moving their own sales model towards an online direction. Even profitable retailers are looking at closing marginal stores and moving to smaller prototypes. At the higher end of the market, the explosion in lifestyle centers seems to be tapering off as the most desirable trade areas have been largely built-out.

A new trend seems to be emerging of retail developments as part of mixed-use projects and encompassing a wide variety of tenants who would have previously not co-located in the same center. An example of this trend would be a mixed use development with housing and/or office on upper floors and restaurants, a small number of high-end boutiques, and convenience retail, such as a chain drug store. This is a model based on convenience with a diverse mix of goods and services, harkening back to the original downtown and neighborhood-scale retail districts.

In terms of performance statistics, the national retail vacancy rate was 6.5% in the first quarter of 2014. The vacancy rate decreased each quarter of 2013, going from 6.9% in the first quarter to 6.8% at the end of the second quarter, 6.7% at the end of the third quarter, and then 6.6% in the fourth quarter. Quoted rental rates for first quarter 2014 averaged $14.63 per square foot per year. That represents an increase from $14.59 per square foot in the fourth quarter of 2013, and from $14.50 per square foot at the end of the second quarter 2013. This represents a 0.3% increase in rental rates in the current quarter, and a 0.89% increase from four quarters ago.[4]

[4] Source: *The CoStar Retail Report, National Retail Market.* CoStar Group; First Quarter 2014.

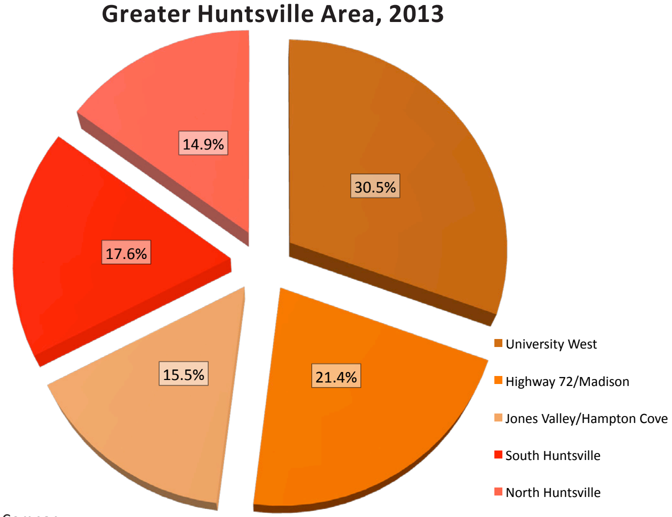
Even before the downturn in the national economy, retail space in the United States was overbuilt in most communities. The falling incomes of the last several years have left less disposable income for retail purchases, and Internet sales have taken customers away from brick-and-mortar stores. The result is a retail real estate market that is in transition with a great deal of space that is obsolete or likely to become obsolete over the coming decade.

Greater Huntsville Overview

Graham & Company tracks the greater Huntsville retail market and divides the area into five submarkets: University West, Highway 72/Madison, Jones Valley/Hampton Cove, South Huntsville, and North Huntsville. Taken together, the Huntsville/Madison County area has over 12.6 million square feet of retail space with an overall vacancy rate of 10.3%. This represents an increase from the 2012 vacancy rate of 9.1%. Rental rates vary greatly by class. According to local brokers, rates for Class A space typically fall between $23.00 and $28.00 per square foot, triple net. For Class B retail space, rates range $17.00 to $20.00 per square foot and for Class C the rates are between $13.00 and $16.00.

University West is the largest retail submarket with almost 3.9 million square feet of space. The second largest is Highway 72/Madison at 2.7 million square feet, followed by South Huntsville with 2.2 million square feet. Jones Valley/Hampton Cove has just under 2.0 million square feet, while North Huntsville has slightly less at 1.9 million square feet. The proportions of retail square footage by submarket is shown in chart below.

Retail Square Footage by Submarket, Greater Huntsville Area, 2013

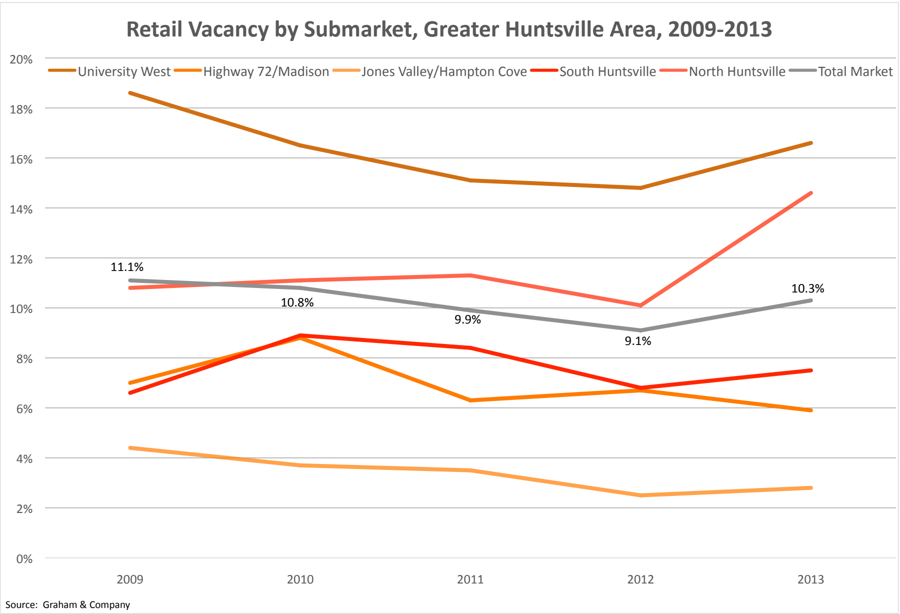


Source: Graham & Company

Two of the submarkets have vacancy rates significantly higher than the area average: University West at 16.6% and North Huntsville at 14.6%. The other three submarkets have vacancy rates that are much lower than the city-wide average: South Huntsville (7.5%); Highway 72/Madison (5.9%); and Jones Valley/Hampton Cove (2.8%).

From the adjacent chart, it can easily be seen that the University West submarket has consistently had the highest vacancy in the market over the past five years, ranging from a high of 18.6% in 2009 to a low of 14.8% in 2012. Jones Valley/Hampton Cove always had the lowest vacancy rate, ranging from a high of 4.4% in 2009 to a low of 2.5% in 2012. The North Huntsville submarket has consistently had the second-highest vacancy rate, ranging from a low of 10.1% in 2012 to a high of 14.6% in 2013. Vacancy in South Huntsville ranged from a low of 6.6% in 2009 to a high of 8.9% in 2010. The Highway 72/ Madison submarket had a vacancy rate falling between a low of 5.9% in 2013 and a high of 8.8% in 2010. The overall vacancy rate for the Greater Huntsville market has remained fairly consistent over the past five years, with a low point of 9.1% in 2012 and a high point of 11.1% in 2009.

Retail space in Huntsville takes a variety of shapes and forms. Graham & Company divides this space into five broad categories: Neighborhood Center; Power Center; Enclosed Mall; Large Box; and Neighborhood Anchored. The largest amount of space falls into the Neighborhood Anchored category, with over 3.7 million square feet. The least amount of space is found in the Enclosed Mall category, with almost 1.6 million square feet. The Neighborhood Center category has just under 1.8 million square feet. The Power Center category has almost 2.7 million square feet of space, and the Large Box category has over 2.9 million square feet. Vacancy varies greatly across the categories, with Large Box having the lowest vacancy at 5.9% and Neighborhood Anchored having the highest at 14.1%.



City of Huntsville

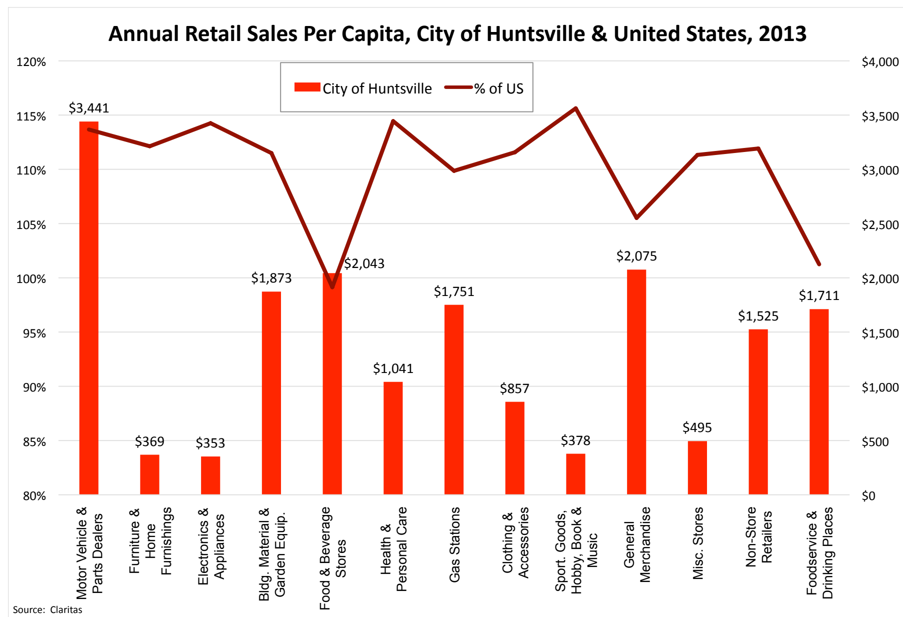
Much of Huntsville's growth took place after the trends of suburbanization had already swept the nation. The result is a downtown that is fairly small when compared to other cities its size and no significant historic neighborhood retail nodes, with the possible exception of the Five Points area -- while small, Five Points has the beginnings of a traditional neighborhood commercial node. Even though the downtown retail market is fairly small, the area is beginning to develop a successful dining and entertainment market. As new downtown housing is constructed, it is likely that the area will also see additional convenience retail. In fact, a new Publix grocery store just opened in the medical district.

The Huntsville retail market is almost entirely suburban in nature, consisting of indoor malls, strip shopping centers, and freestanding retail buildings. This retail space is located throughout the City, typically spread out along the commercial corridors. The general perception is that there is a lack of retail in the northern sections of the City, with most retail located to the south and west of downtown. However, North Huntsville does have a significant amount of retail, including several big box stores and convenience retail. The perception of a lack of retail likely stems from the location of "destination" retail in other parts of the City. However, by its very nature, destination retail cannot be located in all areas of a city and will typically concentrate near major corridors closest to the areas with highest incomes. Currently, most destination retail is located south and west of the City. In North Huntsville, there are fewer dining options than would be expected for its population.

On the whole, the City of Huntsville has a vibrant and successful retail market, and most of the destination retail for the larger region is located within the City. However, there are warning signs that retail may be reaching a saturation point. Already, some of the older centers, especially in the area around Madison Square Mall, are witnessing a great increase in vacancy with brokers stating that they have a lack of viable prospects for this vacant space. While this is currently not a problem city-wide, it could become a problem if retail development outstrips interest from new retailers.

Retail Sales

Because of the City's relatively high incomes, it is not surprising that retail sales per capita are higher in the City of Huntsville than in the nation as a whole. Retail sales per capita are $17,910, which is almost 9% higher than the national figure of $16,470. In addition, retail sales by individual retail category are also above the national average for every category, with the exception of "Food and Beverage Stores," which is still basically on par with the national figure, at 99.1% of the U.S. average, as seen in the following chart.



The greatest variance between the City and nation can be found in the "Sporting Goods, Hobby, Book, and Music Stores" category, with per capita sales in the City of Huntsville at 115.6% of the national average. The strength of this category demonstrates the regional nature of the retail market. Other retail sales categories that are much stronger than the nation include the Health and Personal Care Stores category at 114.4% of the national average and the Electronics and Appliance Stores category at 114.3%.

Retail by Type

Broadly speaking, retail can be divided into two categories: destination retail and convenience retail. Destination retail draws customers from a wide area and includes items that are typically durable. Convenience retailers typically provide commodities necessary for everyday life. Frequency of trips is less to destination retailers, but the average purchase amount is typically greater than for convenience retail.

Retail by Type: Destination

As the commercial center for a growing and prosperous metro area, the City of Huntsville has developed a sizeable market for destination retail serving both the City and the surrounding area. This has led to a great deal of growth in retail real estate. It is likely, however, that this growth will slow. Local brokers report that most of the major retailers only need one or two stores to serve the Huntsville market, and the majority of retailers who want to be in the metro area are already there.

While incomes in the Huntsville area are high, real estate brokers report that higher-end retailers have found the market to have some unique challenges. According to brokers, many of the high-income earners in the City are engineers who tend to have a different mindset from the general public. While no consumer pattern holds true across an entire demographic, retailers have found that those with an "engineer mindset," in general, do not see the value proposition of expensive name brands and luxury goods. The result is that the area may not be able to support as much luxury retail as would be expected when looking only at the income numbers. However, restaurants to perform very well in the Huntsville retail market.

MALLS/LIFESTYLE CENTERS

Huntsville has had several enclosed malls over the years with a history of these centers closing and being replaced by newer malls. Currently, the City has two enclosed malls (Parkway Place and Madison Square) and one major lifestyle center (Bridge Street Town Centre).

Parkway Place Mall opened in 2002, replacing an earlier mall that was demolished. Owned and managed by CBL, this center has 643,000 square feet and is anchored by Belk and Dillard's. Parkway Place is a fairly upscale mall with higher-end specialty shops, including Pottery Barn and Williams Sonoma. The anchor stores are mid-tier department stores but carry some better brands than their typical locations.

Bridge Street Town Centre is an outdoor lifestyle center located in the Cummings Research Park that opened in 2007. Managed by Bayer Properties, Bridge Street has 606,000 square feet of retail space, with a 220,000 square-foot expansion underway. This expansion will bring the center its first department store anchor, a 170,000 square-foot Belk department store. Belk is calling this location a "flagship" store with higher-end brands than those typical to the chain. Current tenants at the center include Gap, Anthropologie, and Banana Republic. The property also includes a 210-room Westin Hotel and a 14-screen movie theater.

Madison Square Mall is a super-regional mall with 930,000 square feet of space. The center opened in 1984 with five department store anchors: Sears, JCPenney, Castner-Knott, Parisian, and Pizitz. Department store consolidation greatly impacted the mall. The opening of the more upscale Bridge

Street Town Centre nearby has led to a rapid deterioration of Madison Square. Dillard's has closed one floor of their two-story location and converted the remaining floor into a clearance center. The former Pizitz/McRae's/Belk store remains empty and Belk will close their store in the former Parisian space when the new Bridge Street store opens. By 2015, only Sears and JCPenney will remain as full-line anchors and the future outlook for these chains at the national level is uncertain. Because there are few candidates to replace the empty anchor stores, it is likely that Madison Square will not be able to continue as a traditional regional mall in the future. The troubles at Madison Square are not unique to Huntsville, but are part of a national trend of declining fortunes for Class B and C regional malls.

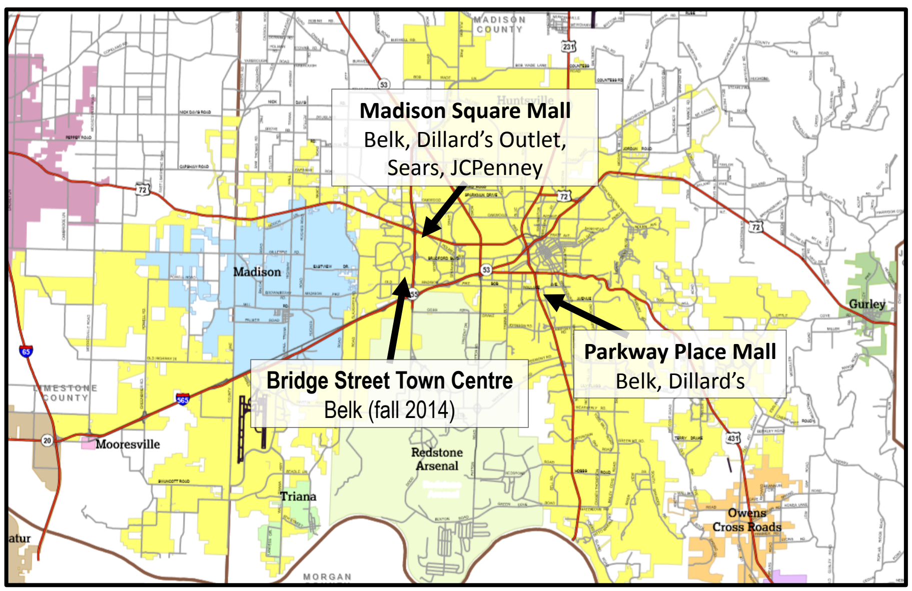
Big Box Retail

Big box retailers are located throughout the City of Huntsville, typically along the major corridors. Major concentrations can be found in Jones Valley; along Memorial Parkway; and along Highway 72.

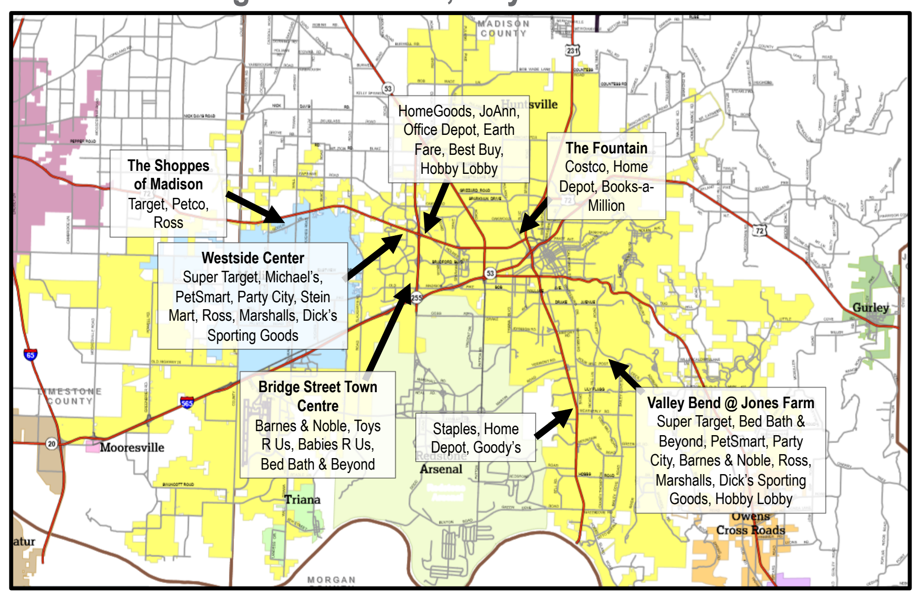
Jones Valley has some of the newer retail development in the City, and Valley Bend shopping center is one of the larger shopping centers in this area. It has 413,000 square feet and is anchored by Hobby Lobby, Dick's Sporting Goods, Marshalls, Bed Bath & Beyond and Petsmart. A SuperTarget is also located on the property.

Memorial Parkway passes from north to south through the heart of the City. It has some of Huntsville's oldest retail areas. To the north of downtown are Books-A-Million, Walmart, Home

Malls/Lifestyle Centers, City of Huntsville



Big Box Centers, City of Huntsville



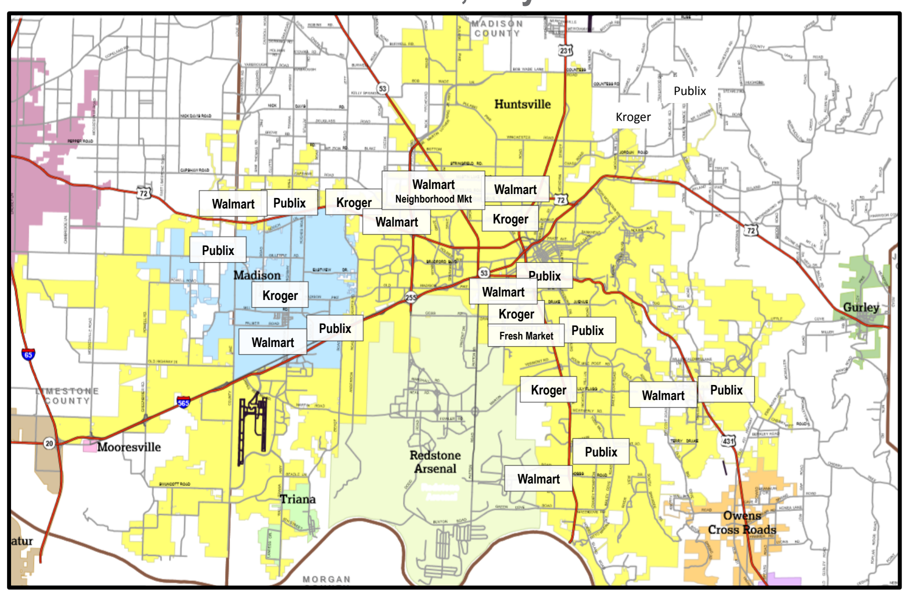
Depot, Costco, Lowe's, and Gander Mountain. To the south of downtown, there is also a great deal of big-box retail with additional development planned. Walmart will be replacing their current discount store with a new supercenter and a new Whole Foods is planned. The area does have a good bit of vacancy, especially at South Huntsville Square.

The Highway 72 corridor has a great deal of big box retail development stretching from the Research Park area all the way to the border with Limestone County. Newer retail centers are located to the west with older centers closer to the core. In general, the new retail further from the core is healthy, while the older centers located closer-in are suffering from vacant or underutilized space. This is typical of the development life cycle for suburban retail across the nation. Most of the retail space along the corridor is in the City of Huntsville, but a significant portion is within the Madison city limits. Overall, the area represents a successful retail market. A demonstration of the area's strength is the location of two Target stores within fairly close proximity and the planned Cabela's, the first in Alabama. However, there are signs of significant overbuilding in the areas closest to Research Park Boulevard. Centers in this area have numerous empty anchor spots, and brokers for the properties report few prospects for the vacant spaces. In the area around Madison Square Mall, there are nine vacant anchor spots in four of the major shopping centers. This does not include the vacant anchor spaces in the mall itself. Over time, these vacancies could lead to disinvestment and blight.

Retail by Type: Convenience

Local-serving/Convenience retail includes grocery stores, drug stores, and smaller tenants, such as cleaners, hair salons, and nail salons. These retailers typically locate close to the residential areas that they serve. The major grocery chains in Huntsville are Publix, Kroger, Star Super markets (a local chain) and Walmart. Walmart has both supercenters and smaller grocery-only Neighborhood Markets. Specialty grocers include the Fresh Market in south Huntsville and Earth Fare in west Huntsville. Whole Foods has announced plans to open a 42,000 square-foot location on the Parkway at Bob Wallace in South Huntsville. Drug store chains Walgreens, CVS, and Rite Aid are all represented throughout Huntsville.

Convenience Retail, City of Huntsville



The City of Huntsville has a thriving retail market serving a growing and prosperous metro area. However, as overall retail trends change, the City will likely have a significant amount of obsolete retail space that will require redevelopment or repositioning.

It seems likely that the Huntsville area can only support, at most, two mall or lifestyle center developments. As a result, the success of Bridge Street Town Centre has come largely at the expense of Madison Square Mall. In addition, future lifestyle center development would likely put pressure on Parkway Place Mall.

Development of big-box retail in Huntsville has likely peaked as retailers feel the pressure of online sales and changing consumer patterns. Most big-box tenants with a desire to have a location in Huntsville already have a presence in the City.

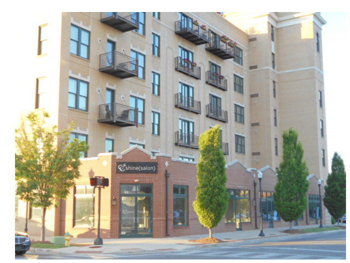
The local-serving and convenience retail markets are typically the most fluid. In Huntsville, as in most cities, these retailers follow residential growth patterns, with new development in areas with strong population growth.

City Subareas

Downtown

As with most cities, downtown Huntsville was once the retail hub for the City. However, over the years the majority of the historic retail space in the heart of downtown has been converted to office with very little true retail remaining. There are a few exceptions, including the historic Harrison Brothers Hardware Store that sells a variety of gifts and art work. While the Downtown subarea is not currently a major retail node for Huntsville, it does have the beginnings of a dining and entertainment district that could attract customers from throughout the region. In addition, new residential developments in the area will likely lead to a demand for additional convenience retail. Just recently, Publix opened a store in the medical district in the southern portion of this subarea.

Downtown


Downtown

East Central

The East Central subarea includes the Parkway Place Mall, which is a regional destination for higher-end retail. This subarea also includes the significant big box development in Jones Valley that serves much of south and east Huntsville. The historic Five Points retail district is located in this subarea along the border with the Downtown subarea. While small, Five Points has the beginnings of a successful urban retail node. In many cities, these traditional neighborhood nodes have become anchors for vibrant dining and shopping districts.

West Central

This subarea does not include a major retail node, but is does have significant retail development along the west side of Memorial Parkway, including Walmart, Kroger, and several other smaller shopping centers. In addition, there is older and somewhat obsolete retail space located along many of the major corridors throughout the subarea.

Southeast

While the Southeast subarea does not have a great deal of destination retail, it does have a significant amount of convenience retail serving local residents. Major retailers include Publix, Walmart, Home Depot, Kroger, and Sam's Club.

East

Retail in this subarea consists largely of convenience retail to serve the area's growing residential base. Major retailers include Publix, Walmart, and Lowes. Because this subarea is located along the eastern fringes of the City, it does not include destination retail.


East Central

East Central


West Central


West Central


Southeast


Southeast

East

Photos are meant to be representative of the character of retail in subarea.

North

While the North subarea has less retail space overall than some sections of the City, it still has a significant amount. Big box retailers are located along Memorial Parkway and include Books-A-Million, Costco, Home Depot, Gander Mountain, and Walmart. While the area lacks dining options, it does have a Starbucks, which is a sign of a potential market for additional restaurants. The Starbucks location is likely the result of significant commuter traffic in the area. Additional restaurants in the subarea would also likely require the support of commuters.

North

North

Northwest

This subarea includes the big box retail development along the north side of the Highway 72 corridor. There is also significant retail development that is located adjacent to this subarea but within the Madison city limits.


Northwest

Northwest

Southwest

This subarea includes a great deal of destination retail, including Bridge Street Town Centre and Madison Square Mall, along with some of the power centers along the south side of Highway 72. In 2015, Cabela's, an outdoor gear and hunting store, will open an 80,000 square foot store at the new Parkside Town Centre development. While there is significant residential development south of the airport and west of Redstone Arsenal, so far, retail development has not followed in any significant way. There is also very little retail development in the newly annexed areas to the west of the City of Madison.


Southwest

Southwest

Photos are meant to be representative of the character of retail in subarea.

Convenience retail is located throughout the City of Huntsville, but destination retail is clustered mainly in the southern and western areas. Dining options are underrepresented in the northern sections of the City.

Planned Retail

There are several retail projects planned in the City of Huntsville, as detailed below.

- In the East Central subarea, the Jones family plans to build a 400,000-square-foot shopping center at the northwest corner of Carl T. Jones Drive and Ledges Drive, directly across from the Target-anchored Valley Bend at Jones Farm. Renderings of the project show 19 retail storefronts, ranging from 6,000 to 104,000 square feet. Also in the East Central subarea, the Shops at Merchants' Walk will be built at the northeast corner of Memorial Parkway and Bob Wallace Avenue. It will include a 42,000 square-foot Whole Foods grocery store along with 50,000 square feet of additional restaurant and retail space.
- In addition, the new Avenues apartment development in the Downtown subarea will include 20,000 square feet of retail and restaurant space.
- In 2015, Cabela's, an outdoor gear and hunting store, will open an 80,000 square foot store at the new Parkside Town Centre development in the Southwest subarea.
- Also, Walmart has a new Supercenter under construction near Memorial Parkway in the East Central subarea.
- A new Walmart Neighborhood Market is planned at the intersection of Jordan Lane and Oakwood Avenue in the North subarea.

Retail Market Dynamics

Without intervention, developers will likely build more retail space than the local market can truly absorb. Existing tenants will move to these new or renovated centers and the landlords of older centers will have limited prospects for replacement tenants. Some of these older centers will be converted to alternate uses, while others will remain vacant or underutilized. Examples of this can already be seen in the area around Madison Square Mall.

City's Potential Role

While many future retailers may require space of a type or quality not currently available, the City should encourage the reuse or redevelopment of existing retail sites whenever possible. Otherwise, the City will have to contend with a large number of vacant and blighted former retail properties. In downtown Huntsville, the City should also encourage the gradual replacement of first floor office tenants with retail uses to activate street vibrancy. In addition, new retail to serve neighborhoods should take the form of walkable urban nodes instead of a series of car-dependent strip shopping centers.

Office Market

National Context

Historically, most office uses were located in downtowns. As the nation began to follow a suburban, car-oriented development pattern in the mid-twentieth century, office uses moved with retail and residential development to the fringes of cities. Office tenants serving local residents, such as banks, real estate agents, and insurance agents, typically located in areas interspersed with retail uses, often in the same buildings. Large-scale office tenants serving the region or nation often located in office parks that were physically separated from other uses. In recent years, a significant number of office tenants have begun to look for office buildings that are located in a setting that also includes retail and residential uses. This is a result of changing demands from office employees, especially the younger "millennial" generation and those working in creative industries. The result is a demand for office space in new mixed-use developments and in revitalized historic business districts.

The United States office market was greatly impacted by the economic downturn of the past several years, with massive increases in unemployment driving down the demand for office space. With fewer employees, many companies also downsized their space to cut expenses. The result was weak demand for new office space in most areas of the nation. Fortunately, job growth has returned. In 2013, approximately 2.2 million net new jobs were created in the national economy, causing the unemployment rate to decline from 7.9% to 6.7% over the course of the year. More important for the office sector, office-using jobs increased by 721,000 during 2013. This represented an acceleration from the increase of 696,000 office jobs in 2012, and 570,000 in 2011.[5]

While the office employment outlook continues to improve, this job growth has not resulted in a proportionate increase in demand for office space. This is largely the result of a major shift in the way that companies use their office space. According to a recent global survey, the amount of office

[5] Source: *U.S. Office Trends Report*. Cassidy Turley Commercial Real Estate Services; Fourth Quarter 2013.

space per worker was 225 square feet in 2010. By 2013, the figure had dropped to 150 square feet or less. This rapid decrease in the amount of space per employee was achieved through teleworking, space-on-demand, and co-working. In the survey, more than 80% of the respondents stated that their company had moved in the direction of open space floor plans with fewer assigned cubes and fewer assigned individual offices. While the change has been dramatic, it is likely that the ability to further downsize space is somewhat limited. Approximately 43% of survey respondents say that they now have more collaborative space than private space where employees can focus.[6]

Developers are aware of the changing dynamics of the office market and have held back in adding supply, even in the face of increasing office employment. This has allowed the somewhat weak demand to still outstrip the increases in supply. The result has been significant improvement in market conditions. Nationally, the vacancy rate for office space peaked at 13.5% in the first quarter of 2011, and has been gradually decreasing ever since. By first quarter 2014, the vacancy rate had fallen to 11.5%. While this is an improvement, it is still higher than the pre-recession vacancy rate of 10.6% in 2006. Rental rates ended the fourth quarter at $22.17, an increase of 0.6% over the previous quarter.[7]

The economic downturn has led to a "reset" in the office market. Office tenants have learned to fit more employees into a smaller area. The result is slow growth in new office space. While it is possible that this trend may somewhat reverse itself as the economy and profits continue to improve, it is unlikely that growth in office space will return to historic trends.

Greater Huntsville Overview

Graham & Company tracks almost 17.8 million square feet of office space in the Greater Huntsville area. The vacancy rate for this space currently stands at 15.5%. This represents a large increase over the most recent low point of 6.9% in 2006. It is important to note that the most recent low point for vacancy was eight years ago, and even with improvements in the economy, the vacancy rate is still over twice as high. When looking at just multi-tenant buildings, the vacancy rate is much worse, currently standing at 25.6%. According to local brokers, on average, rental rates for Class A office space range from $19.00 to $20.00 per square foot, full service. For Class B, rates are typically $16.00 to $17.00 per square foot, and for Class C the rates are $13.00 to $14.00 per square foot.

The local office market is divided into three submarkets by Graham & Company: Cummings Research Park; Jetplex/Madison; and the Central Business District. Cummings Research Park is by far the largest office submarket with 12.1 million square feet of office space. The Central Business District has approximately 3.2 million square feet of space. The Jetplex/Madison submarket is the smallest with 2.0 million square feet of office space.

[6] Source: "Property Paradox: Space for Office Workers Continues to Decline." CoreNet Global; August 2013.
[7] Source: *The CoStar Office Report, National Office Market*. CoStar Group; First Quarter 2014.

Office Submarkets, Greater Huntsville Area

Source: Graham & Company

Cummings Research Park

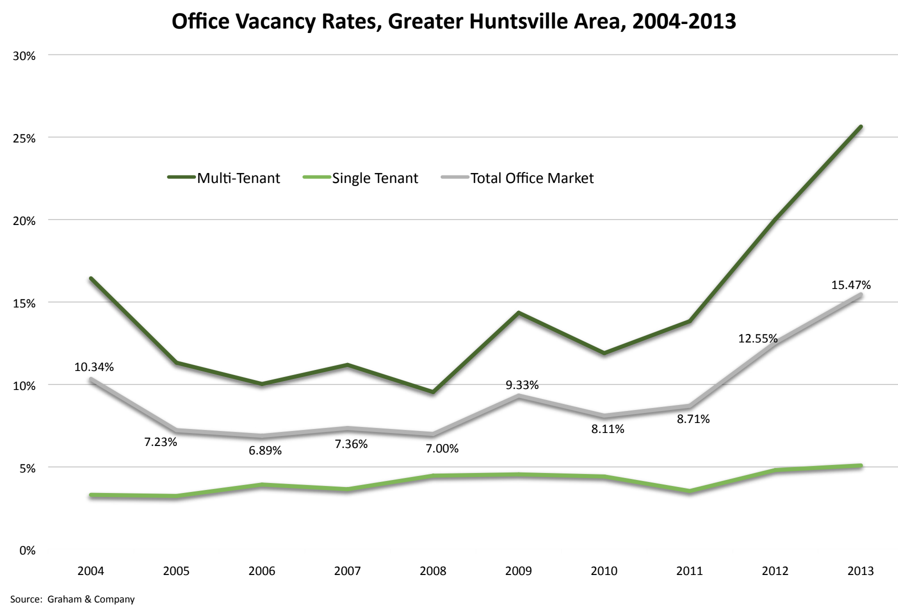
Central Business District

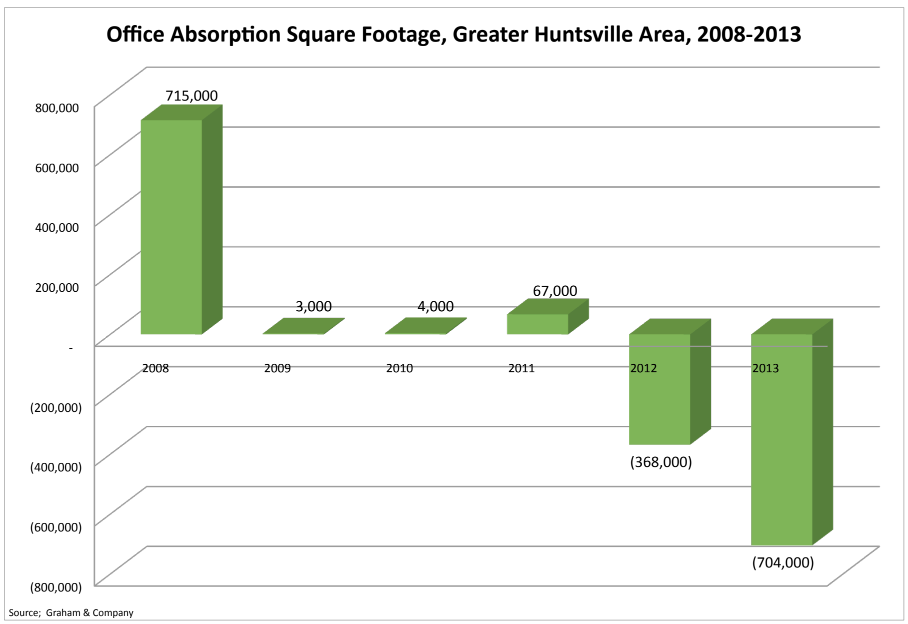
Jetplex/Madison

Vacancy rates vary greatly by submarket, with Cummings Research Park having the lowest at 11.9% and Jetplex/Madison having the highest at 31.4%. The Central Business District falls in the middle at 17.9%.

In each submarket, the vacancy rate for multi-tenant buildings is higher than for single-tenant buildings, as shown in the following chart. In Cummings Research Park, the multi-tenant vacancy is 22.8% versus 5.1% for single-tenant. In Jetplex/Madison, the vacancy rate for multi-tenant buildings is 49.9%, with no vacancy for single-tenant buildings. In the Central Business District, the multi-tenant vacancy is 18.7% while the single-tenant vacancy is just 13.1%. While the vacancy rate has been somewhat volatile, the overall trend has been upward.

The Huntsville/Madison County Area experienced negative absorption of 704,000 square feet in 2013. This was on top of a negative absorption of 368,000 square feet in 2012. Between 2008 and 2011, absorption was positive, but the overall absorption between 2008 and 2013 was a negative 283,000 square feet. The chart on the next page shows that the negative absorption of the last two years erased all of the gains of the previous four-year period.





City of Huntsville

Broadly speaking, office uses can be divided into two categories: local-serving tenants and regional/ national tenants. Local-serving tenants are those whose primary customer base are local residents. Examples would include medical offices, insurance agencies, and bank branches. These businesses tend to grow or contract in direct relation to the local population. Regional or national office tenants provide services to other companies or individuals on a regional, national, or international basis. Examples of this tenant type would include corporate headquarters, back-office functions, and research and development facilities. These are the office uses that bring outside dollars into a community.

The City of Huntsville is fortunate to have a significant office market with regional/national tenants. Office development for regional office tenants does not perfectly follow a pattern, as perhaps retail following residential tends to. This type of office space is actually one of the most difficult land uses to recruit. There are stringent requirements for access, amenities, location, and agglomeration that are used as guidelines. This basically means that office begets office; office is a use that most often clusters together.

Redstone Arsenal

Redstone Arsenal, a 38,000-acre United States Army complex, was the catalyst that created Huntsville's sizeable office market. "The Arsenal is a major federal research, development, test and engineering center and is home to the Army's missile, missile defense and aviation programs, the Missile Defense Agency, the Defense Intelligence Agency and NATO's MEADS program. Redstone is the principal location for Army material management, logistics and foreign military sales. NASA's Marshall Space Flight Center is also headquartered at Redstone. Arsenal agencies and program offices currently employ more than 37,000 people who manage more than $100 billion in annual federal budgets. Redstone is home to more than 60 different federal organizations and contractor operations."[8]

While large military bases are always strong economic engines, they typically have a limited ability to create and sustain a significant office market in the surrounding community. However, Redstone Arsenal's status as a major research, development, and engineering center has attracted to Huntsville numerous private engineering firms with government contracts. The result has been the creation of an office market and a local talent pool that are strong enough to attract other office uses not directly tied to the military.

The vast majority of office space in the City is located in either Cummings Research Park (CRP) or downtown Huntsville. Outside of these two areas, most office tenants tends to be local-serving businesses located in fairly small developments, often competing with retail tenants for space.

Cummings Research Park

Cummings Research Park was established in 1962, when the City of Huntsville zoned 3,000 acres of land as a research park district. The second major phase of CRP was launched in 1982 with the development of CRP West. Currently, the park includes 3,843 acres with approximately 12.0 million square feet of office space. Major tenants include Northrop Grumman, Dynetics, and Lockheed Martin. The vast majority of tenants have some connection to the activities at Redstone Arsenal. As a result, sequestration and the slowdown in defense spending have greatly impacted the market, slowing demand and creating rising vacancy. According to local brokers, the increasing vacancy has led to some migration of tenants from older buildings in CRP East to newer buildings in CRP West. This has, in turn, opened up opportunities for smaller companies and temporary space in the older buildings. Historically, CRP's restrictive covenants have provided the basis for its growth, but some brokers feel that some of these covenants may need to be revisited if the park is to remain competitive in the future. Some rules, such as those regarding the construction of new multi-tenant buildings, may hinder future growth in the park. Office developers outside of the park have a competitive advantage because of the ability to build first generation multi-tenant buildings. Also, as with the market as a whole, brokers recommended continued efforts to diversify the types of tenants in CRP to create long-term stability.

Redstone Gateway is a new 468-acre mixed-use commercial development located south of CRP adjacent to Interstate 565 at Gate 9, the main gate into Redstone Arsenal. Current plans call for the development of 4.4 million square feet of Class A office space. Approximately 1.2 million square feet will be secured office space located inside the Arsenal's security perimeter. Much of the infrastructure for this development has already been put into place, and Boeing has become the first tenant, occupying three buildings with over 350,000 square feet. While this development has not yet led to an exodus from CRP, it is certain to put pressure on the research park.

Downtown Huntsville

The downtown office market, while significant, is much smaller than the CRP office market. Office uses in downtown Huntsville have much less direct

[5] Source: *Chamber of Commerce of Huntsville/Madison County.*

relation to activities at the Arsenal and tend to be more traditional uses such as local government, finance, legal, and medical. Major office users include the City government, BB&T, PNC Bank, and Huntsville Hospital. There are, however, signs of increased diversification in the downtown office market. In 2013, Curse, Inc., a technology-based gaming information company, moved its headquarters from San Francisco to downtown Huntsville. Overall, the downtown area has quite a few older buildings that could be considered somewhat obsolete. While the downtown office market has traditionally been weaker than the CRP office market, the area has the potential to grow much stronger if additional improvements create a vibrant urban environment that is attractive to firms looking to draw younger employees.

Medical Office

The medical office market continues to grow in the Huntsville area. Medical office is clustered around the Huntsville Hospital campus in downtown Huntsville, with an increasing presence around the new hospital facility in Madison. In addition, the hospital is opening new, small medical offices throughout the community to take healthcare closer to residents. Most of these facilities will be less than 5,000 square feet, with some newly built and others utilizing space in existing buildings. Altogether, the hospital leases about 700,000 square feet of office space to physicians. Currently, there is very little vacancy in this space. The new Twickenham Place medical office building in downtown Huntsville adds over 100,000 square feet of medical office and was successful in pre-leasing a significant amount of space. In addition, medical office is under construction in the Highway 72 corridor near the new Madison Hospital. While the new hospital facility is in the City of Madison, a great deal of the spin-off development is in the City of Huntsville.

Huntsville has a large and vibrant office market, largely an outgrowth of Redstone Arsenal. Rising vacancies point to a need to stabilize current market supply and to diversify away from an over-reliance on defense industries. Redstone Gateway, if completely developed, could destabilize older office markets unless there is a significant influx of new office tenants. However, rising vacancies could create room for new, non-defense related companies.

City Subareas

Downtown

This subarea includes the historic Central Business District and the office buildings focused on the finance and legal sectors. It also includes the hospital and related medical office space. Downtown contains the largest cluster of office space outside of Cummings Research Park. The area includes both large, multi-story buildings and much smaller buildings. Most of the first floor retail space in the heart of the historic downtown has also been converted to office uses.

East Central

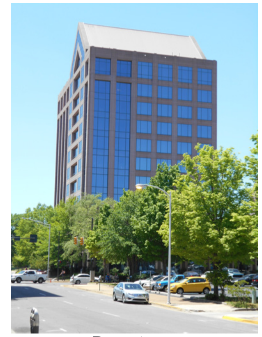
While the East Central subarea does not include a major office node, it does still have a significant amount of office development. The medical district around the hospital is located largely in the Downtown subarea, but several medical office buildings are located south of Highway 431 in the East Central subarea. In addition, there are several significant Class A office buildings located along Whitesburg Drive north of Airport Road.

West Central

This subarea consists largely of local-serving office tenants. There are a variety of office uses located to the west of the Memorial Parkway that tend to be older and are interspersed with other commercial uses.

Southeast

While not a major office node, this subarea does include a significant amount of local-serving office. It also includes some larger office buildings near the Parkway.


Downtown


Downtown


East Central


East Central


West Central


West Central

Southeast

Photos are meant to be representative of the character of office in subarea.

East

This subarea includes a small amount of office for local-serving uses, such as medical, insurance, and real estate. Much of this office space is interchangeable with retail. The Russell Brown Medical Park, is one of the few fairly significant office buildings in the area.

North

The North subarea does not have a great deal of office tenants, but there are local-serving tenants spread throughout the area.

Northwest

While this area does not include a large concentration of regional office uses, there are many local-serving offices interspersed with retail uses along the Highway 72 corridor. There are also a few Class A office buildings, such as Perimeter Corporate Park, that serve as an extension of the Research Park area to the south. In addition, the Village of Providence also includes office space in a mixed-use setting.

Southwest

The Southwest subarea contains by far the largest concentration of office uses in the City of Huntsville. It includes both the Cummings Research Park and Jetplex/Madison areas. Office space in the area ranges from single-story office parks to multi-story Class A structures. The Executive Park development is a low density, single-story office park in this subarea providing space for a variety of local companies.

Photos are meant to be representative of the character of office in subarea.


East

East

North


Northwest


Northwest


Southwest


Southwest

The location of office uses in the City of Huntsville varies greatly by type. Regional office related to the defense industries are mostly located in the Southwest subarea. Government, banking, legal, and medical offices are largely concentrated in the Downtown subarea. Local-serving office is spread throughout the City, but tend to concentrate in the areas where retail is strong; this is not surprising since most of these office tenants are trying to attract the same customers who are frequenting the retailers.

Planned Office

Current market conditions make new office construction difficult because of high vacancy and a lack of new tenants. However, there are a variety of sites for future office development in the Cummings Research Park and in the new Redstone Gateway development.

Office Market Dynamics

Without a great deal of recruitment and diversification, the office market in Huntsville is likely to remain soft for the foreseeable future, as changes in the national and local economies limit the demand for new office space. Over the medium-term, it is likely that downtown Huntsville will become much more competitive with the Cummings Research Park as a certain subset of tenants look for a more urban, mixed-use environment.

City's Potential Role

While there will continue to be significant demand for office space because of spin-off from Redstone Arsenal, the quality and character of future office development will greatly influence the ability of Huntsville to compete with major cities across the nation. To be competitive on a national scale, future office development in Huntsville will need to be in more mixed-use environments that integrate amenities and residential with the workplace, not separating these uses in different parts of the City. There is strong potential in downtown Huntsville for this to take place or it can be developed as part of new mixed-use projects, similar to the Twickenham development adjacent to Huntsville Hospital. It will also be important to consider how to adapt, retrofit, and modify existing office parks, such as Cummings Research Park, in order to remain competitive in the future.

Industrial Market

National Context

At the end of World War II, the United States was one of the few industrialized nations to escape with its infrastructure largely intact. The result was a competitive advantage that led to several decades of robust growth in both manufacturing production and employment. However, by the 1970s and 1980s, much of this advantage began to dissipate, and other nations began to offer strong competition.

Since that time, there has been much concern about the decline of the United States manufacturing sector. While it is true that manufacturing has declined dramatically as a share of the nation's GDP, the overall dollar value of manufactured goods has largely continued to increase, reaching a highpoint in 2007. The Great Recession did cause a decrease in manufacturing output, but the nation had recovered these losses by the end of 2013 and reached new highs in early 2014.

While the dollar value of manufacturing production has largely moved in a positive direction, employment in manufacturing has seen steep losses. Between 2000 and 2010, the nation lost 5.7 million manufacturing jobs, representing 33% of the total manufacturing employment. Since 2010, about half a million of those jobs have been regained.[9] These job losses stem from several factors, including increased productivity of American industry and the movement of labor-intensive industries to other nations with lower labor costs.

Until recently, the loss of manufacturing employment to lower-cost nations seemed irreversible. However, a new trend has emerged with a small, but steadily increasing number of companies moving production back to the United States. Often referred to as "reshoring," the repatriation of manufacturing has a variety of causes including: a need for reduced lead times, a desire for lower inventories, a greater ability to control quality, a reduction in red tape, and a decrease in shipping costs. In addition, rising labor costs in formerly developing nations are making the American worker more competitive. "Manufacturing employment is forecast to stabilize between 2010

[9] Source: "Why the 2000s Were a Lost Decade for American Manufacturing." *Industry Week;* March 2013.

and 2020 with growth in fabricated metals, plastics and rubber, nonmetallic mineral, wood, and furniture product manufacturing industries. In the aggregate, manufacturing employment will stabilize, instead of continuing the contraction posted during the previous two decades."[10]

After suffering through several years of poor economic conditions, the national industrial real estate market is beginning to rebound. While manufacturing uses are showing signs of growth, a great deal of the recovery is driven by national retailers and third-party logistics companies who need large, modern distribution space. For first quarter 2014, the national vacancy rate was 7.8%, which represented the lowest vacancy since 2008. Quoted rental rates had been increasing, reaching $5.39 by first quarter 2014; this represents an increase of 0.6% over the end of 2013.[11]

While a great deal of the industrial market has been moving towards very large-scale operations in massive buildings, there has also been strong growth at the opposite end of the spectrum. Designers, inventors, artisans, and engineers are creating more localized and customized goods and services on a small scale. This trend has come to be called the "Makers Movement." The "Makers Movement" describes a return of sorts to American manufacturing, innovation, and ingenuity. It is a subculture of "do-it-yourselfers" powered by technology who see life through an open-source lens. The term maker today is intended to be widely encompassing, including artisans, craftsmen, innovators, engineers, and creators of everything from foods to multimedia to home goods to computer applications. "Makers tap into an American admiration for self-reliance and combine that with open-source learning, contemporary design and powerful personal technology like 3-D printers. The creations, born in cluttered local workshops and bedroom offices, stir the imaginations of consumers numbed by generic, mass-produced, made-in-China merchandise."[12]

In the past, industry in general was perceived as "dirty" and often relegated to the fringes of the community. However, with a move towards "clean" industry, many industrial uses are locating closer to goods and services for their employees, and are even included in some mixed-use developments.

The United States industrial market has undergone a great deal of upheaval over the past few decades. Labor-intensive production has largely moved overseas, but there are still opportunities for industrial growth. Industrial types with the most potential for growth are those that are highly automated, require an educated workforce, or have high transportation costs. In addition, the "Makers Movement" provides an opportunity for manufacturing growth on a small scale, but with a large impact in the aggregate.

[10] Source: "Stabilization of the U.S. Manufacturing Sector and Its Impact on Industrial Space." NAIOP Research Foundation; June 2013.

[11] Source: *The CoStar Industrial Report, National Industrial Market.* CoStar Group; First Quarter 2014.

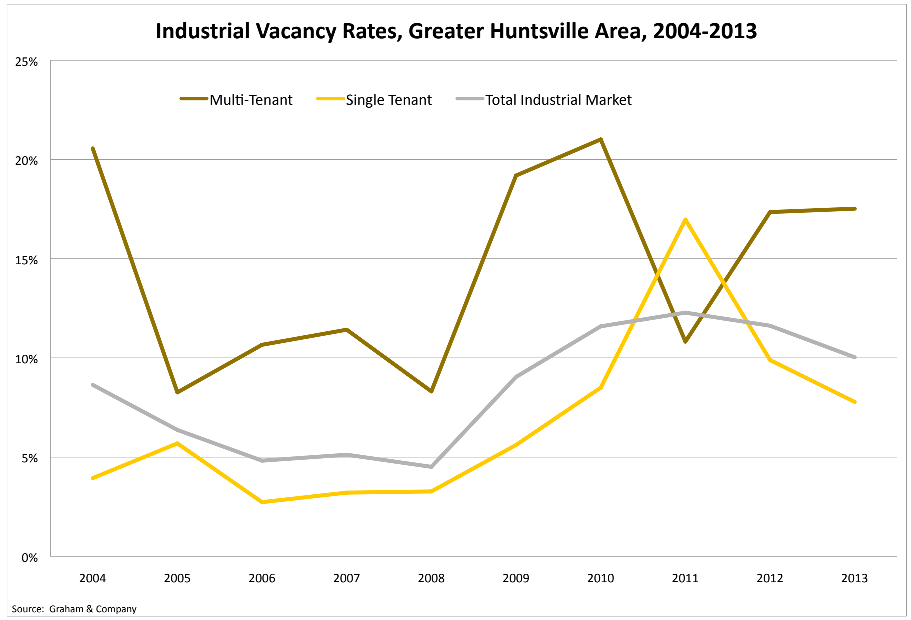
[12] Source: *"Which Big Brands Are Courting the Maker Movement, and Why." AdWeek; March 2014.*

Greater Huntsville Overview

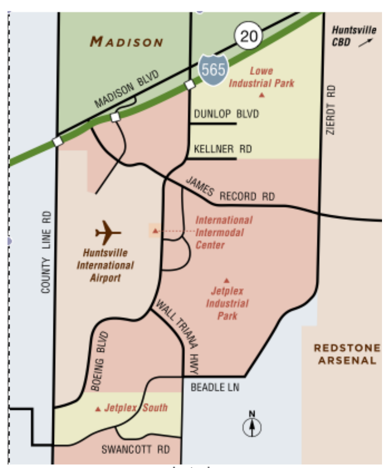
According to Graham & Company, there is approximately 22.3 million square feet of industrial space in Madison County, with 5.2 million square feet in multi-tenant buildings and 17.1 million square feet in single tenant buildings. The overall vacancy rate is 10.0%, which is a significant decrease from the high point of 12.3% in 2011. Multi-tenant vacancy is a much higher 17.5%, but still lower than the 2010 vacancy rate of 21.0%. Single tenant vacancy is 7.8%, which is the lowest since the 2009 rate of 5.6%.

Approximately 618,000 square feet of industrial space was absorbed in 2013, representing a significant increase over the approximately 236,000 square feet that was absorbed in 2012. While absorption was negative in 2011 (-197,000 square feet) and 2010 (-400,000), a strong positive absorption in 2009 (1,100,000 square feet) provides an overall positive absorption of almost 1.4 million square feet over the past five years. According to local brokers, rental rates for industrial space vary a good bit based on the quality of the building. For Class A buildings, rental rates typically range from $4.75 to $5.25, triple net. For Class B, the range is $3.75 to $4.25, and for Class C it is $2.50 to $3.25.

As can be seen in the adjacent chart, vacancy in the market has been fairly volatile. This is largely the

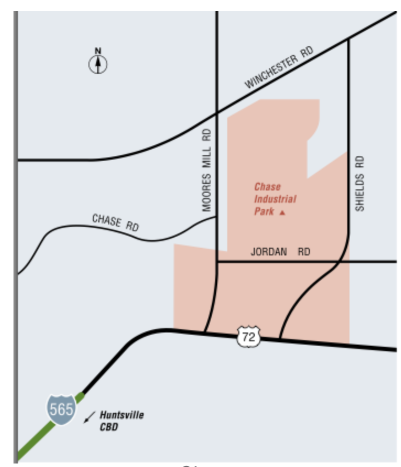


Industrial Submarkets, Greater Huntsville Area



Jetplex

North Huntsville



Chase

Source: Graham & Company

result of the nature of the industrial market. One or two large tenants moving in or out can greatly impact absorption and vacancy.

Graham & Company divides the greater Huntsville industrial market into three broad subareas: Jetplex, North Huntsville, and Chase.

Jetplex is by far the largest of the submarkets, with 12.4 million square feet. Single tenant buildings account for approximately 8.4 million square feet, and there is 4.0 million square feet in multi-tenant buildings. The submarket has an overall vacancy rate of 13.0%. The vacancy for single tenant space is 9.5%, but the vacancy rate for multi-tenant buildings is a much higher 20.4%. According to local brokers, several large blocks of space account for much of this vacancy. Major tenants in this submarket include Navistar, Georgia Pacific, and Kohler.

The North Huntsville submarket has 3.0 million square of industrial space. Over 1.0 million square feet is found in multi-tenant buildings, and approximately 2.0 million square feet is in single tenant buildings. The overall vacancy rate is 7.6%. Major industrial uses in the area include Toyota, Ferguson, and Amtec.

The Chase submarket is located in northeast Huntsville and has approximately 5.1 million square feet of industrial space, with over 5.0 million square feet in single tenant buildings. This submarket has the lowest vacancy rate, at just 1.6%. All of this vacancy is found in single tenant buildings. Major companies with facilities in this subarea include PPG Industries, Qualitest Pharmaceuticals, and SRS Roofing Supply.

City of Huntsville

In the City of Huntsville, there is large-scale industrial development in several areas to the west, north, and northeast. The larger region has a great deal of industry that could be described as “dirty,” with odors, noise, or visual blight. However, within the City of Huntsville industrial uses are typically “clean” industry, with little negative impact on surrounding areas.

Historically, spinoff from Redstone Arsenal has been a significant driver of industrial uses in the City, but there are efforts by both the City and the Chamber of Commerce to diversify the industrial base to create a more stable market that is less dependent on the defense industries. Industries such as Toyota demonstrate Huntsville’s ability to compete for large-scale, non-defense related manufacturing based on the area’s strong talent pool and its infrastructure assets.

The City of Huntsville has several competitive advantages that have helped to create a vibrant industrial market. The City’s location close to I-65 provides the necessary transportation infrastructure. In addition, the City offers a variety of available industrial buildings and sites. The area is also home to many research and development efforts, and these tend to attract related manufacturing opportunities. Most importantly, the City has a skilled and educated workforce. Unskilled manufacturing jobs have largely moved overseas, with the remaining industrial uses in the United States typically requiring a somewhat educated workforce. Huntsville is one of the limited number of areas that can offer both a skilled population and a low cost of living. All of these advantages have led to an industrial market that includes a great deal of value-added production, not just distribution.

While Huntsville has many competitive advantages when it comes to attracting industrial uses, these jobs are highly sought, and competition between communities, states, regions, and even nations is fierce. Future growth in the industrial market will depend on the City’s continued marketing efforts and a dedication to remaining competitive. In addition to simply attracting large-scale industries, the City of Huntsville has an opportunity to also grow its burgeoning small-scale “makers.” These firms range from the spinoff companies of local engineering firms to the microbreweries located around the city and the artisans at Lowe Mill.

Craft breweries are one example in Huntsville of localized, customized, small-scale production. In fact, Madison County has the highest per capita volume of breweries than any other county in Alabama. Over the course of 2013, the number of active Huntsville-area beer-making ventures doubled from four to eight.[13] Craft breweries seem to have performed well in Huntsville due to a natural fit with engineers, both as makers and customers.

"Lowe Mill ARTS & Entertainment is the Southeast's largest center for the arts. With over 100 working artists, small businesses, restaurants, and live performance venues, this huge historic textile mill is now a rising home for music, art, and culture."[14] Lowe Mill ARTS & Entertainment's tenants are arts and businesses with a creative focus, including a confectionary, a printing press, a screen printer, and traditional painters and sculptors, among others. Lowe Mill is currently in an expansion effort that will increase their square footage by another 39,000 square feet; adding 28 new studios, which will bring the number of working studios to an impressive 121.

The City of Huntsville has a vibrant industrial sector. Historically, industrial growth was supported to a large extent by activities associated with Redstone Arsenal. However, the City enjoys many competitive advantages that will allow it to grow and diversify its industrial base, with the most important advantage being a skilled workforce.

[13] Source: AL.com

[14] Source: Lowe Mill ARTS & Entertainment.

City Subareas

Downtown

There is little significant industry in the Downtown subarea. There are, however, several craft breweries that have opened in the area. These represent a move towards new types of local, small-scale manufacturing.


Downtown

East Central

Overall, the East Central subarea is home to few industrial developments. However, it does include the very large Qualitest Pharmaceuticals facility. Qualitest manufactures a variety of generic drugs.


East Central

West Central

This subarea was historically home to a variety of industrial uses, and there is still significant industrial development to the west of Memorial Parkway. In addition, the Lowe Mill complex is in this subarea. Lowe Mill, a historic factory, has been transformed into an arts and entertainment facility. While it would no longer fit the traditional view of industrial use, there are many products that are created by artisans in this building, and it fits into the trend of more local, small-scale manufacturing. Small-scale manufacturers at Lowe Mill include a confectionary company and a screen printer.


West Central

Southeast

Within the Southeast subarea, there is both light industry and heavy industry located along the Parkway. There are larger industrial uses in the southern portions of the subarea near Green Cove Road, including the large Sanmina-SCI facility. Sanmina-SCI is an electronics manufacturing services provider.


Southeast

Photos are meant to be representative of the character of industrial in subarea.

East

This subarea includes little significant industrial space with the exception of a few local-serving and auto-related uses.

North

The North subarea includes a significant amount of industrial space with the Toyota plant serving as a major industrial anchor. Adjacent to Toyota is the mostly empty North Huntsville Industrial Park. However, the very significant Chase industrial area is also located within this subarea. Unlike some areas of Huntsville, most of the industrial tenants in the Chase area are not defense-related.

Northwest

This subarea includes the Spacegate Industrial Park and a variety of industrial developments along Jordan Lane. Spacegate provides fairly simple buildings for mid-sized industrial uses. Further to the south along Jordan Lane, industrial buildings tend to be smaller and older with more erratic development patterns.

Southwest

The Southwest subarea includes the JetPlex industrial area and Cummings Research Park. This subarea has the best access to transportation in the City. Jetplex surrounds the airport, and I-565 bisects the area. To the west, this subarea includes the newly annexed area adjacent to I-565, which provides a great deal of land for future industrial development. This area already has industrial uses, such as the Target distribution center, but further significant growth will likely require a major anchor project. Industrial uses in Cummings Research Park are "clean" industry interspersed with the office development.

East

North

Northwest

Southwest

Photos are meant to be representative of the character of industrial in subarea.

Unlike many cities, industrial uses in Huntsville are not confined to one or two areas of the City. There are several industrial and office/industrial parks that perform well located throughout Huntsville. This is likely a result of the City's mostly "clean" industrial base that provides employment without destroying the quality-of-life in nearby areas. The City's skilled workforce is a major asset in attracting industrial growth.

Planned Industrial

Remington has announced the opening of a new facility in the 850,000 square-foot former Chrysler building near the airport. It is expected to create 2,000 jobs.

Industrial Market Dynamics

Based on current market tends, it is highly likely that Huntsville will be able to continue the growth of its industrial base. Huntsville is uniquely situated to take advantage of the two trends in industry, movement to large-scale production/distribution and the creation of a small-scale "Makers" economy. The City has the transportation access, necessary infrastructure, and skilled talent pool to remain very competitive for large industry, especially manufacturing and other value-added enterprises. At the other end of the spectrum, the City's highly educated workforce provides fertile ground for the development of advanced manufacturing and artisan production, as both spinoffs of engineering research and as outlets for the talents of local artisans.

City's Potential Role

To maintain its competitive edge, the City of Huntsville should continue to provide large industrial tracts with access to infrastructure and transportation. However, the City should not ignore the opportunity to grow the industrial market at the other end of the spectrum. Space should be available for the creative community and small-scale manufacturers. The Lowe Mill complex is a good example of this type of development.