

Noell Consulting Group was retained by Urban Design Associates, as part of a consultant team, to conduct a two-part market analysis identifying development and redevelopment opportunities in the 3<sup>rd</sup> and 4<sup>th</sup> Street Corridors of Downtown Chattanooga. The first portion of the study, an in-depth market analysis, was followed by a second phase, testing the feasibility of development and/or redevelopment in and around the study area from an intensity / financial perspective.

NCG's market-based analysis efforts targeted four key land uses: for-sale residential (condos and townhouses), rental residential, office, and retail, understanding the strengths and challenges associated with the study area and placing them in the context of larger market demand and supply trends and conditions. After quantifying demand potential for the study area, NCG worked with the project team to identify supportable units and square feet by time period and for key development locations. This process included testing the feasibility of different land uses, understanding the price points and intensities needed to support redevelopment efforts in each area.

#### Overview

The City of Chattanooga has grown slightly faster than the metro area the last four years, averaging 0.9% annual household growth. The Downtown has seen a resurgence in people wanting to relocate to the city core and has developed many lifestyle amenities that today's renter and intown purchaser are seeking including walkability, access to restaurants, entertainment, and parks and trails. The city is experiencing record job growth, largely a function of continued infrastructure investment including being home to the country's largest fiber network.

The Study Area encompasses the Riverfront, Downtown, UTC/Fort Wood, Orchard Knob, Glenwood and Bushtown neighborhoods. DeButts Yard and the railroad line running through the center of the study area form a major economic and geographic dividing line from the west to the east. The major employment anchors include multiple medical centers, University of Tennessee - Chattanooga and the Downtown/Riverfront area.

- The medical centers and medical offices employ over 12,000 individuals and account for 50% of jobs located in the study area.
- UTC is in the middle of the study area and enrolls over 10,000 students and employees over 1,200 individuals.
- The Downtown/Riverfront offers a unique opportunity to capitalize on the large job core and annual tourism of sites like the Tennessee Aquarium and Hunter Museum of American Art.



### Rental Housing Market

- The Study Area is well positioned overall for traditional market rate apartments. The demand is due to the strong job projections and the central submarket rate trends. The pipeline showcasing the supply is strong but still some near-term opportunity after factoring out potential cancelations, delays and condo conversions. Future growth is currently projected at 150 units per year in the Study Area.
- The student demand is extremely strong because of UTC's continued growth, even after adjusting for incomes and planned new student housing deliveries. Unmet potential is currently at 598 beds with future growth set at 51 beds per year.
- The City of Chattanooga should be getting more LIHTC credits based on need, and can use this to stabilize the eastern part of the corridor with mixed-income developments.
- Current rental prices cannot support structured parking for market rate housing. Creative parking solutions will need to be utilize including shared parking, and off-site parking for students.
- Employee surveys at anchor institutions (UTC and Erlanger Medical) indicated a strong interest in living nearby, if the appropriate housing supply existed.

### For-Sale Housing Market

- The City of Chattanooga is less volatile than many markets in the country today. Home values in the metro are already back to the previous peak.
- New homes sales should be strong from 2016 to 2019 with the current strong job growth projections.
- The Intown capture of new home sales is small but continues to grow. The focus has been on emerging areas like the Southside, and neighborhoods like Jefferson Heights.
- The areas within the Study Area that have space to support new single family construction can only support entry level homes.
- The market for condominiums and townhomes is strongest in Downtown and Fort Wood. The Downtown market is seeing sales to empty nester households and should continue to be strong as baby boomers move into their 50's and 60's.

### Office Market

- Vacancy rates Downtown have been high since the recession, but are beginning to drop. Downtown saw good absorption in 2015 and should continue.
- Strong demand should be seen Downtown until 2019 with job growth projection and increased interest in the area.
- Creative office space is currently under served and there is potential for 30,000 square feet. The majority of demand for this space is Downtown, although these tenant types care as much about the building type as they do about location.

- Medical office plays a large role outside of the Downtown job core. There is current unmet demand of 16,000 square feet and strong growth potential as the region begins to age.
- Before Downtown can support new construction prices it will need to see stronger rental rate growth, or continue to utilize creative parking solutions.

#### Retail Market

- Downtown has large gaps for regional retailers. There is an opportunity to serve intown households (Southside and Northshore), especially when combined with tourists and daytime office workers.
- An Urban format Target and/or Home Depot can be supported. Ideal sites will need to be those with the highest traffic counts and visibility (4<sup>th</sup> or Riverfront Parkway).
- There is demand for clothing, office supply and sporting goods stores. Approximately 21,000 square feet of excess demand exists for restaurants and/or drinking establishments as well.
- Demand exists for several key lifestyle amenities including grocery store and pharmacies serving Downtown, UTC area and east side.
- The retail probably can't support structured parking based on current rental rates but these retailers should accept structured parking given the urban location.

#### Conclusion

The overall development demand is strong for a wide mix of uses, with an emphasis on the areas west of DuButts Yard. This demand is based on job growth projections and demographic trends moving back into the city, along with historical undersupply given the student population and Downtown/UTC/medical anchor employment levels. Construction costs and parking will be challenges whereas most land uses can't support structured parking in standalone configurations, and urban development modes are becoming increasingly more challenged with surface parking at the current land values.

# SUMMARY OF DEVELOPMENT PROGRAM BY LAND USES

# RIVER CITY COMPANY DOWNTOWN CHATTANOOGA MARKET ANALYSIS

Exhibit 59  
Residential Development Product Matrix

Land Use	Estimated Annual Demand		Pricing	Notes/Comments
Rental Apartments	2,090 units total 236 units unmet demand over existing supply		\$1.50/SF - \$1.70/SF	At this price point, it will be difficult for developers to build structured parking or utilize existing parking decks (as some recent projects have). Some of the best sites may support structured parking, however, especially in Northshore.
Student Housing	598 beds of unmet demand, and 51 beds/year due to future growth		\$650-\$750 per bed	Current student housing developments support structured parking when built at scale, while smaller projects have limited parking available. There is also room within this market for specialized housing (e.g. fraternity and sorority housing)
For-Sale Attached Condos	138 units total 46 units per year starting in 2018		\$250/SF+	Demand for condominiums is focused around Downtown, Riverfront, and Northshore, where lifestyle amenities and view premiums are highest. These units should be able to support structured parking costs.
For-Sale Attached Townhomes	192 units total 38 units per year		\$250/SF for Luxury product, \$150/SF for Entry Level product	Equal demand for high end product in Downtown/Northshore and entry level product in Southside.
For Sale Detached Single Family	63 units total 13 units/years		\$130/SF - \$200/SF \$250,000 - \$350,000 Southside \$350,000 - \$550,000 Cameron Harbor and Northshore	Downtown can support a wide variety of homes, from starter homes in Southside to more expensive homes in Fort Wood and Northshore. The overall demand is limited

SOURCE: Noell Consulting Group.

# RIVER CITY COMPANY DOWNTOWN CHATTANOOGA MARKET ANALYSIS

## Exhibit 60 Office / Retail / Commercial Development Product Matrix

Land Use	Estimated Annual Demand		Pricing	Notes/Comments
Class A Office	200,000 within the next five years		\$20/SF-\$22 Mod. Gross	This office space will be mid-rise construction type in the CBD, most likely in smaller buildings (25,000 to 50,000 SF).
Creative Office	55,000 unmet demand plus 6,000 SF/year		\$12/SF-\$15/SF Mod. Gross	The majority of demand for this space is Downtown, although these tenant types care as much about the building type as they do about location, so there are opportunities in Southside and Northshore as well.
Regional Retail	406,000 SF plus 3,400 SF/year		\$20-\$22/SF NNN	Regional retail should be located Downtown along major thoroughfares, such as Market St, Broad St, 3rd St, or a re-aligned Riverside Dr. Manufacturers Rd in Northshore will continue to be a popular area as well
Neighborhood Retail	212,000 SF plus 2,800 SF/year		\$19/SF NNN	The majority of this will need to be located Downtown and near UTC where it can serve both daily workers and the student population. Southside will continue to generate demand for new retail as more households move in.
Neighborhood Commercial	67,000 SF plus 2,200 SF/year		\$16-30 SF Mod. Gross	This commercial space can be spread throughout the study area in mixed-use developments and in stand-alone space.
Medical Office	14,000 SF current gap plus 6,600 SF/year		\$20-\$22/SF Mod. Gross	This will be focused around Erlanger hospital. This demand does not include replacement space in the event that aging medical office near Erlanger is demolished.

SOURCE: Noell Consulting Group.