STRATEGIC MARKET ANALYSIS FOR FUTURE URBAN DEVELOPMENT

DOWNTOWN CHATTANOOGA

CHATTANOOGA, TN

Prepared for River City Company
February 20, 2023

ABOUT RCLCO

Since 1967, RCLCO has been the “first call” for real estate developers, investors, the public sector, and non-real estate companies and organizations seeking strategic and tactical advice regarding property investment, planning, and development.

RCLCO leverages quantitative analytics and a strategic planning framework to provide end-to-end business planning and implementation solutions at an entity, portfolio, or project level. With the insights and experience gained over 50 years and thousands of projects–touching over $5B of real estate activity each year–RCLCO brings success to all product types across the United States and around the world.

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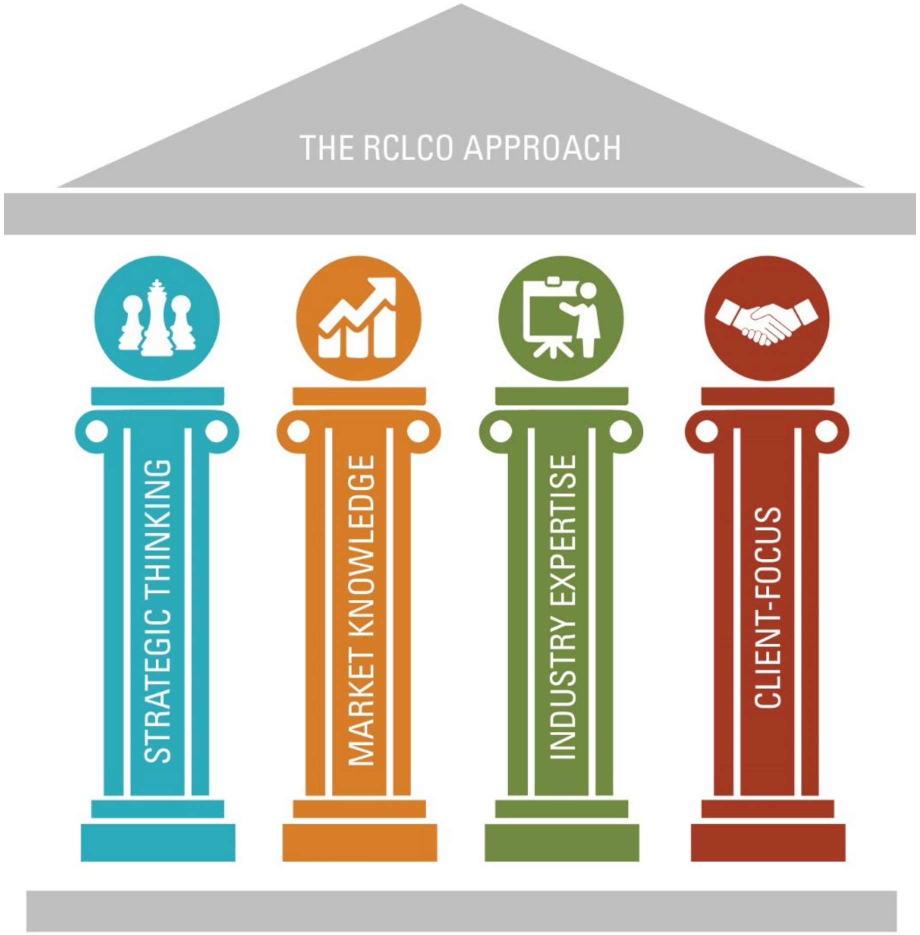

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OBJECTIVES & KEY FINDINGS

OBJECTIVES

In 2013, RCLCO completed a market analysis focused on the future opportunity for development in Downtown Chattanooga. At that time, the Downtown real estate market was in a relatively nascent stage, but since then, many neighborhoods of Downtown have flourished and urban development has spread to other submarkets in the region. Specifically, plans have emerged for nearly 300 acres of Downtown adjacent land at major redevelopment sites including *The Bend* and the U.S. Pipe and Wheland Foundry site. There is significant housing development along South Broad, and as many as 10 acres of surface parking lots in Downtown that are in the process of sale/redevelopment. Now, questions have been raised concerning how planned supply and future redevelopment sites may impact Downtown's prospects across a wide range of land uses.

Against this background, River City engaged RCLCO to complete a detailed market analysis to assess the forward-looking market opportunity for for-sale residential, multifamily rental, student housing, office, retail, and hotel development in Downtown. This report seeks to respond to the following key questions:

- Who are the logical target market audiences for various residential and commercial land uses in Downtown?
- What is the potential depth of market demand for various potential residential and commercial land uses in the near, mid, and long terms? How does demand compare to proposed supply and the location of future development?
- Given an assessment of Downtown, in general, and the various submarkets, in particular, what is the relevant positioning for each area that will create differentiation and create the best opportunity to maximize overall market potential?
- What impact will other planned public improvements, such as riverfront improvements or other anchors/entertainment, have on market evolution and the trajectory for each land use?

Downtown Chattanooga
Chattanooga, TN

Image Source: River City

AN INCREASINGLY LIVELY AND ATTRACTIVE DOWNTOWN HAS BEEN THE MAIN DRIVER OF CHATTANOOGA'S ROBUST ECONOMIC GROWTH

Chattanooga has experienced something of an urban renaissance over the last decade. In 2015, the City rolled out its Gig City initiative, laying the groundwork for increased employment in technology-driven industries, advanced manufacturing, and other high-growth sectors that have differentiated the regional economy from many of its neighbors. **Job growth since 2010 has largely outpaced the national average, with particular outperformance in 2020**, when the regional economy remained resilient amid the pandemic-induced transition to work-from-home. Compared to both "directly comparable" and "aspirational" peer markets throughout the Southeast—including Asheville, Lexington, Greenville, and Wilmington—Chattanooga has performed on par or better in terms of employment growth and downtown apartment market fundamentals since 2015.

Outsized growth in professional and business services, as well as manufacturing, reflect the unique regional drivers that have shaped Chattanooga over the past decade. Steady expansion of Volkswagen's electric vehicle manufacturing operations at their current facility is one such driver, and the company is poised to expand their presence in the region even further. But the true economic engine of Chattanooga is Downtown, which is home to the region's largest concentrations of professional services, retail, education, and healthcare employment. **While Downtown has seen more rapid household growth than suburban neighborhoods, household growth still lags job growth**, and demand for Downtown living continues to intensify as the region sustains its impressive growth trajectory.

Downtown is composed of eight distinctive neighborhoods, delineated by their respective land uses, densities, and development patterns. To the west, Cameron Harbor and Westside/Cameron Hill are predominantly residential and less dense, with some office, including Blue Cross/Blue Shield's office campus atop Cameron Hill. Across the river from the rest of Downtown, Northshore is a key neighborhood-serving retail node for Downtown residents. Riverfront and City Center—the most urban neighborhoods—contain the vast majority of office space in Downtown, as well as a lot of visitor-serving retail and notable attractions, including the Tennessee Aquarium and AT&T Field. MLK/UTC and Southside are predominantly residential, home to a mix of renters—including students at the University of Tennessee at Chattanooga—as well as homeowners in low-density for-sale housing. Lastly, *The Bend* is a potential future neighborhood of Downtown, with residential and office developments in the pipeline, among other planned uses.

These submarkets present unique development opportunities but also face unique challenges *(see Page 7 and Page 23 for analyses of existing conditions in Downtown)*, with common issues including the lack of neighborhood-serving retail and aging infrastructure. Additionally, RCLCO perceives a spatial separation of uses *(see Page 22)* between neighborhoods, highlighting a **strong opportunity to bring residents to historically commercial parts of Downtown and create a truly mixed-use environment** with places where visitors and residents can all live, work, and play.

Downtown Chattanooga
Chattanooga, TN

Image Source: Visit The USA

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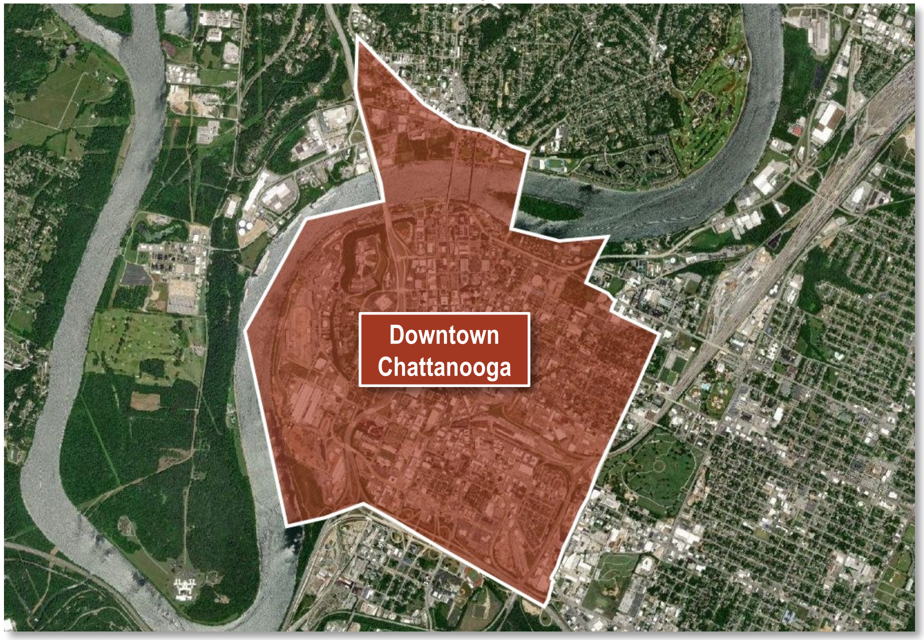
DOWNTOWN CHATTANOOGA'S GROWTH PRESENTS A COMPELLING OPPORTUNITY TO FURTHER ENHANCE THE MIXTURE OF USES AND ACCOMMODATE A GROWING HOUSEHOLD BASE IN THE REGION'S HISTORIC COMMERCIAL CENTER

Downtown Chattanooga has served as the economic backbone of the broader region for decades, as Chattanooga has undergone a transition from its historical origin as an industrial hub to a more diverse and resilient regional economy. **Downtown's lead role is attributable in part to the quantity of legacy corporate office properties in City Center, comprising nearly a third of all properties in Downtown.** Intermixed with office development are smaller-scale retail storefronts—mostly restaurants, entertainment and fitness, and soft goods retailers—extending along major corridors such as Market Street and MLK Boulevard In terms of overall properties count, retail has the greatest presence of the major product types in Downtown, although a key challenge going forward will be how to reorient Downtown's retail supply to serve residents in addition to tourists and other visitors.

A rapidly evolving segment of the Downtown built environment is multifamily residential. Over the last decade, **the supply of market-rate rental apartments has increased significantly in Downtown, as the rental market continues to perform well**, boasting positive absorption even in the wake of the pandemic. Increased demand for denser for-sale residential product, including condominiums, has also driven price appreciation and elevated sales volume in the for-sale market as well. Despite their strong performance, however, new residential communities face challenges integrating with scarce neighborhood-serving retail options, especially given that large swaths of the fastest-growing residential nodes—including Cameron Harbor, the east section of Riverfront, and Southside—are removed from the major retail corridors along Market Street, MLK Boulevard, and Main Street. In short, while Downtown Chattanooga's strong economic base is an important foundation for future growth in its real estate markets, untapped opportunities abound.

Boundaries of Downtown Chattanooga
Chattanooga, TN



Estimated Number and Size of Properties by Type, 2022;
Downtown Chattanooga

	RENTABLE SPACE		PROPERTIES	
USE	SF (Est.)	%	# (Est.)	%
Multi-Family	5,690,000	24.1%	100	6.2%
Owner-Occupied Housing	1,980,000	8.4%	850	52.6%
Office	9,840,000	41.7%	250	15.5%
Retail	1,250,000	5.3%	300	18.6%
Industrial	4,200,000	17.8%	85	5.3%
Flex	610,000	2.6%	30	1.9%
TOTAL	**23,570,000**	**100.0%**	**1,615**	**100.0%**

Source: CoStar; Esri; RCLCO

KEY FINDINGS – RENTAL HOUSING

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THERE IS A STRONG AND IMMEDIATE OPPORTUNITY FOR NEW RENTAL PRODUCT, ESPECIALLY MULTIFAMILY, TO BRING A VARIETY OF RENTERS TO DOWNTOWN

The below table summarizes average pricing characteristics as well as cumulative demand across various residential uses in Downtown Chattanooga (see previous page for boundaries used in RCLCO's analysis). As illustrated below, there are **strong development opportunities for various types of rental housing, ranging from affordable to high-end multifamily**, given compelling market fundamentals observed today and the **severe lack of new product**; however, **constraints do exist on the market's ability to fully respond to this opportunity—namely, the availability of developable land** for new ground-up development. That said, there is likely to be abundant demand to support multiple types of rental housing, particularly denser product types as residents continue to embrace the vibrancy and convenience of urban living.

Shifting development patterns are bringing growing numbers of renters to Downtown Chattanooga, with the standard of new multifamily rental product steadily evolving to serve high-earning young and mature professionals. In the broader geography of Urban Chattanooga (see Page 27), market fundamentals have improved markedly since 2015, with **860 units absorbed per year** on average from 2015 to 2020, and over 1,000 units absorbed in 2021—approximately 40% of which were absorbed in Downtown Chattanooga.

In addition to strong market fundamentals, structural demographic shifts favor new rental residential product (namely, a sustained influx of young, professional households from other markets). RCLCO believes there are **opportunities to attract renters to neighborhoods that have been traditionally dominated by commercial uses, such as City Center and Riverfront**, creating a more fine-grained mixture of land uses in the process. One promising option in these neighborhoods could be **adaptive reuse and/or office-residential conversions**, which River City has facilitated before. With that said**, a significant portion of projected demand will go unmet without large-scale additions** to the pipeline of planned development today. This translates to a **strong opportunity for additional multifamily** rental development to the tune of one to two new buildings per year out to 2035.

For more information on the rental housing market Downtown, see Page 24.

	DESCRIPTION	AVG. CURRENT PRICING	AVG. UNIT SIZE	TYPICAL PROJECT SCALE	CUMULATIVE DEMAND DOWNTOWN *Total demand for new units* BY 2025	BY 2030	BY 2035	OPPORTUNITIES LOCATION APPEAL	SUPPLY / DEMAND BALANCE	MARKET OPPORTUNITY
RENTAL HOUSING					1,600 Units	3,700 Units	5,870 Units			
Single-Family Rental	Detached rental home, often part of larger planned community, with driveway/garage/street parking	$1.36 / SF $2,175 / Month	1,600 SF	N/A	30 Units	80 Units	140 Units	WEAK	STRONG	MODERATE
Rental Townhomes	Three-story rental townhomes, with one- or two-car attached garages	$1.40 / SF $1,950 / Month	1,400 SF	30 Units	60 Units	180 Units	340 Units	STRONG	STRONG	STRONG
Conventional Rental Apartments	Multifamily apartment community, with structured parking in a podium or wrap configuration	$1.64 / SF $1,400 / Month	850 SF	100 Units	1,510 Units	3,440 Units	5,390 Units	STRONG	STRONG	STRONG

Note: Demand from students renting on the private market in lieu of living in purpose-built student housing or on-campus dormitories should be thought of as included in the demand forecast for conventional rental apartments, but demand specifically from students for new rental product is not likely to grow over the timeframe shown (see Page 35).

Source: RCLCO

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RCLCO PROJECTS LESS UNMET DEMAND FOR FOR-SALE RESIDENTIAL THAN FOR RENTAL, BUT A STRONG OPPORTUNITY STILL EXISTS FOR NEW SUPPLY, PARTICULARLY CONDOMINIUM CONVERSION OR ADAPTIVE REUSE

Chattanooga is a hot market for out-of-state homebuyers. This, coupled with the lack of for-sale inventory and Chattanooga's historical position as an affordable market by national standards, has fueled a significant upward price correction in recent years. At the same time, product type preferences among prospective homebuyers have also evolved as Chattanooga has urbanized. Condominiums comprise a growing share of overall home sales, with developers pursuing a number of strategies—including adaptive reuse to convert legacy commercial properties—to meet growing demand for new homes in Downtown.

Downtown Chattanooga has experienced a similar price lift to the rest of the Chattanooga region. A lack of developable land has constrained the supply of new townhomes and single-family homes, but sales of condominiums have increased dramatically since 2015 (see Page 37). Recognizing the market's strength, developers have planned for the delivery of **1,450 new for-sale homes by 2030**, with nearly 400 homes tentatively planned for *The Bend*. RCLCO's forecast of demand for new homes in Downtown exceeds planned deliveries, but large-scale developments beyond what is in the pipeline today could jeopardize supply-demand balance. There is room, however, for small-scale office-to-residential conversions or ground-up development of smaller condominium buildings.

For more information on the for-sale housing market Downtown, see Page 36.

					CUMULATIVE DEMAND DOWNTOWN *Total demand for new units*			OPPORTUNITIES		
	DESCRIPTION	AVG. CURRENT PRICING	AVG. UNIT SIZE	TYPICAL PROJECT SCALE	BY 2025	BY 2030	BY 2035	LOCATION APPEAL	SUPPLY / DEMAND BALANCE	MARKET OPPORTUNITY
FOR-SALE HOUSING					**310 Units**	**760 Units**	**1,220 Units**			
For-Sale Single-Family Homes	Single-family detached home with standardized setbacks and driveway/garage/street parking	$264 / SF $475,000	1,800 SF	N/A	30 Units	70 Units	110 Units	**WEAK**	**STRONG**	**MODERATE**
For-Sale Townhomes	Three-story for-sale townhomes, with two-car attached garages	$314 / SF $550,000	1,750 SF	30 Units	120 Units	290 Units	450 Units	**STRONG**	**STRONG**	**STRONG**
For-Sale Condominiums	Typically mid-rise, often converted from commercial use, with attached parking on the ground level	$333 / SF $450,000	1,350 SF	70 Units	160 Units	400 Units	660 Units	**STRONG**	**STRONG**	**STRONG**

Source: RCLCO

KEY FINDINGS – OFFICE

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OLDER OFFICE BUILDINGS ARE AT RISK OF CHRONIC VACANCY, BUT NEWER PRODUCT IS LIKELY NECESSARY TO MAXIMIZE RETENTION OF TENANTS AND MANAGE FLIGHT TO QUALITY

Weaker demand for new office product is largely driven by a flight-to-quality observed in older office buildings. Moreover, while RCLCO does expect natural growth in demand as Chattanooga's economy continues to grow, turnover between leases has the potential to hurt some of the older properties in City Center. However, this is also an **opportunity for innovative approaches** to protect office market fundamentals and seize on strong opportunities in the market for new residential product. **Creative office is also a potential opportunity**, either for conversions of traditional/corporate office or utilization of smaller spaces above retail to drive foot traffic in commercial corridors.

Office market prospects are less encouraging than residential. While **office space in Downtown Chattanooga is mostly well-leased**, large spaces are underutilized—the enduring impact of work-from-home on companies such as TVA or Blue Cross/Blue Shield—and the lack of new deliveries have created a mismatch between tenants' space needs and current supply. These dynamics have assured near-zero rent growth in 2021 and 2022 YTD, and an uncertain future as tenants reassess their leases and office owners struggle to keep their buildings occupied.

At the same time, there are bright spots, including the relative strengths of creative office spaces currently clustered between City Center and Southside. With planned delivery of new office space likely to threaten older office buildings, RCLCO sees opportunity to convert these buildings to creative office with smaller floorplans or rental/for-sale residential, protecting office market fundamentals while taking advantage of strong market tailwinds for these other uses. **Medical office might also become a compelling opportunity** as Downtown's population grows and the existing hospital infrastructure may need to expand.

For more information on the office market Downtown, see Page 43.

					CUMULATIVE DEMAND DOWNTOWN *Total new SF demanded*			OPPORTUNITIES		
	DESCRIPTION	AVG. CURRENT PRICING	AVG. UNIT SIZE	TYPICAL PROJECT SCALE	BY 2025	BY 2030	BY 2035	LOCATION APPEAL	SUPPLY / DEMAND BALANCE	MARKET OPPORTUNITY
OFFICE					**233,000 SF**	**771,000 SF**	**1,341,000 SF**			
Corporate Office	Office suitable for a variety of financial, technology, transportation/logistics or government users	$24 FS	N/A	120,000 SF	133,000 SF	505,000 SF	882,000 SF	**STRONG**	**WEAK**	**MODERATE**
Creative Office	Space designed for smaller firms in architecture, design, etc	$22 FS	N/A	40,000 SF	100,000 SF	266,000 SF	459,000 SF	**STRONG**	**MODERATE**	**MODERATE / STRONG**

** Office demand forecast is driven by employment growth projections.*

Source: RCLCO

THERE IS A SLIGHT RISK OF OVERSUPPLY IN THE NEAR TERM GIVEN THE QUANTITY OF DEVELOPMENT IN THE PIPELINE, SO ATTRACTING GROWTH IN BUSINESS TRAVEL IS KEY

Like the office market, the Chattanooga hotel market suffered as a result of the COVID-19 pandemic, but is expected to make a full recovery. Importantly, the cumulative demand listed below is unmet demand for new hotel product. Because of the presence of the Convention Center, hotels providing a broader array of services and amenities have a unique locational appeal, but suffer from similar challenges with core market fundamentals. Accordingly, **increasing weekday travel should be a key area of focus** to ensure a healthy hospitality market going forward. RCLCO's analysis of critical success factors for both residential and commercial uses are outlined on Page 13.

Like hotel markets across the country, Chattanooga experienced a drastic decline in leisure and business travel during COVID-19, with occupancy in Downtown hotels dropping below 50% in 2020 and ADR experiencing a corresponding decrease from $139 the year before to $122. However, occupancies have since recovered—driven mostly by weekend travel—reflecting Chattanooga's emergence as an enticing weekend travel destination for households throughout the Southeast region.

RCLCO's demand forecast assumes the market will return to its stabilized pre-pandemic occupancy rate within the next two years, at which time **planned hotel supply additions may disrupt the fragile supply-demand balance** observed in the market today. **RCLCO projects no unmet demand beyond what is already planned until around 2033**. However, this forecast reflects the existing conditions at the Convention Center—a primary driver of travel to Downtown. Any expansions and/or renovations to the Convention Center may cause demand for new hotel rooms in the vicinity of the Convention Center to exceed the anticipated growth in supply from new deliveries.

Another source of uncertainty for Downtown Chattanooga's hotel market is short-term rentals, which were increasing in popularity before the pandemic. Average occupancy for properties listed on Airbnb and Vrbo peaked at 75% in 2021, highlighting the growing number of travelers who were weary of sharing space with other travelers. However, recently enacted restrictions on short-term rentals may prop up hotel occupancy rates going forward.

For more information on the hotel market Downtown, see Page 61.

					CUMULATIVE DEMAND DOWNTOWN *Total new keys demanded in addition to planned deliveries**			OPPORTUNITIES		
	DESCRIPTION	AVG. CURRENT PRICING	AVG. UNIT SIZE	TYPICAL PROJECT SCALE	BY 2025	BY 2030	BY 2035	LOCATION APPEAL	SUPPLY / DEMAND BALANCE	MARKET OPPORTUNITY
HOSPITALITY					**0 Keys**	**0 Keys**	**540 Keys**			
Limited-Service Hotel	Four- to five-story hotel; likely upper midscale or upscale flag	$150 ADR	400 SF	100 Keys	0 Keys	0 Keys	540 Keys	**MODERATE**	**WEAK**	**MODERATE / WEAK**
Full-Service Hotel	Five to 10 story hotel, with hotel restaurant, conferencing facilities, etc.	$200 ADR	600 SF	200 Keys				**STRONG**	**WEAK**	**MODERATE**

** Cumulative demand for new keys accounts for the current development pipeline, while office demand does not, since RCLCO's office demand forecast is driven by employment growth projections and not existing/projected supply.*

Source: RCLCO

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THE RETAIL MARKET IS BROADLY BALANCED, BUT THE LACK OF DAILY NEEDS RETAIL IS A MAJOR WEAKNESS

At this time, the roughly 1.25 million square feet of retail space in Downtown Chattanooga is well-occupied and very little new product has delivered over the last decade. While the market did experience negative net absorption during the pandemic in 2020, strong absorption in 2022 YTD has more than made up for this brief bout of weak performance. RCLCO attributes this in part to the strong performance exhibited by Downtown's destination retail centers, including *Warehouse Row* and *Chattanooga Choo Choo.*

RCLCO approached our retail demand by initially determining the total amount of new retail expected through 2040 by leveraging predicted changes in household and employee retail spending and how that spending is distributed across retail types. The difference between each category's share of current supply and forward-looking capture of total retail spending thus informs our assessment of supply/demand balance. Currently, there are **notable gaps in Chattanooga's current retail supply**, most obviously the **lack of grocery options** outside of Northshore, and the **orientation of existing retail toward visitors rather than residents** in Riverfront and City Center, which leaves residents in Southside and MLK/UTC—both heavily residential areas—with **few options to meet their daily needs**. RCLCO's demand analysis suggests that **future demand should be more heavily weighted towards grocery & drug stores and restaurants, away from soft goods, services, and entertainment**.

For more information on the retail market Downtown, see Page 53.

			SHARE OF TOTAL DEMAND DOWNTOWN			OPPORTUNITIES		
	DESCRIPTION	AVG. CURRENT RENTS	EST. SHARE OF CURRENT SUPPLY	PROJ. SHARE OF TOTAL DEMAND BY 2040	TOTAL NEW SF DEMANDED BY 2040	LOCATION APPEAL	SUPPLY / DEMAND BALANCE	MARKET OPPORTUNITY
RETAIL			100%	100%	350,000 SF			
Grocery & Drug	Boutique or traditional grocer, drug store, or pharmacy	$15 to $20 NNN	8%	18%	150,000 SF	STRONG	STRONG	STRONG
Restaurant	Mix of fast casual and sit-down restaurant concepts	$10 to $15 NNN	35%	38%	115,000 SF	STRONG	MODERATE	MODERATE / STRONG
Entertainment & Fitness	Mix of fitness concepts, as well as small-scale entertainment (e.g., breweries)	$20 to $25 NNN	19%	15%	0 SF	STRONG	VERY WEAK	MODERATE / WEAK
Services	Basic household services, such as nail salons, barbershops, banks, etc.	$20 to $25 NNN	15%	9%	0 SF	STRONG	VERY WEAK	MODERATE / WEAK
Soft Goods	Variety of boutique tenants and suppliers of goods ranging from clothing/apparel to bedding	$20 to $25 NNN	17%	7%	0 SF	MODERATE	VERY WEAK	WEAK
Hard Goods	Can be larger-format than soft goods retail; includes electronics, appliances, and furniture	$20 to $25 NNN	3%	7%	45,000 SF	MODERATE	MODERATE	MODERATE
Auto & Gas	Gas stations with smaller physical footprints but typically higher sales per square foot	$20 to $25 NNN	3%	6%	40,000 SF	WEAK	MODERATE	MODERATE / WEAK

Source: RCLCO

CRITICAL SUCCESS FACTORS

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RCLCO identified a selection of critical success factors informed by the market analysis and by best practices in peer cities, and guided further by our expertise in emerging urban markets across the U.S. that should help guide urban development and land use in Downtown Chattanooga for the foreseeable future. These include:

	FACTOR	PERTINENT LAND USE(S)	RATIONALE
USE-SPECIFIC	**Market-Driven Adaptive Reuse**	Office, Residential, Mixed-Use Residential	As a historic nine-to-five employment hub, Downtown Chattanooga is home to approximately **10 million square feet of office space across 250 properties**. This space is **largely well-leased but highly dated**, with an average year built of 1947. As detailed in our office market analysis and demand forecast, the office market as a whole is subject to a number of headwinds that are only set to intensify over the next few years. The advent of work-from-home has led to a glut of underutilized office space, especially in the case of larger office tenants like TVA and Blue Cross/Blue Shield. At the same time, while demand for office space is broadly weak, the pandemic has driven a flight to quality, leaving legacy office space in Downtown Chattanooga at risk of chronic vacancy, exacerbating the risks posed by the resilient post-pandemic trend of work-from-home. However, this is also a compelling opportunity to embrace adaptive reuse, particularly conversions of older office buildings to residential product. River City has spearheaded adaptive reuse efforts before—*The Gold Building, The Maclellan,* and *The Tomorrow Building*, both cases where office spaces were converted into hotel or multifamily buildings with unit programs weighted towards smaller floorplans. Consequently, these projects appealed to younger renter households who also prefer the dense, urban environment offered by City Center and other central areas of Downtown.
USE-SPECIFIC	**Retail-Residential Synergy**	Retail, Residential	As River City has identified in their prior work (e.g. the *One Riverfront* master plan), Riverfront and nearby areas of Downtown are predominantly visitor-serving in their retail offerings, with **a significant lack of essential goods and services needed to support a growing household base**. A notable example is the lack of a major grocery store in and around City Center; Downtown residents are left with limited options, and must choose between traveling over the river to Northshore or venturing out to outlying suburban neighborhoods, accessible only by car. This highlights **the importance of retail-residential synergy**, which is achieved first and foremost by **building a critical mass of neighborhood-serving retail**—including supermarkets and drugstores, as well as retailers that can also help create and strengthen community identity, such as restaurants and breweries. River City can lead this effort by supporting projects that include these types of retail, with the recognition that an interesting and engaging mixture of uses is still likely to appeal to visitors as well as prospective residents.
USE-SPECIFIC	**Attracting Business Travel**	Hotel	As RCLCO's hotel market analysis shows, the Chattanooga hotel market has **not fully recovered** from COVID-19, in part because of a **sluggish recovery of business travel**. Currently, Chattanooga's hotels operate at far higher occupancies on weekends. This means that hotels—and the neighborhoods they are in—tend to hollow out during the week, which makes it more difficult to support a thriving retail environment. While Chattanooga has the infrastructure in its Convention Center to theoretically host major business conferences and corporate events, RCLCO learned in our conversations with hospitality stakeholders that trade shows and exhibitions (which more often take place on weekends) are more common uses of the Convention Center. River City should leverage the findings of Chattanooga Tourism's Convention Center study to ensure healthy occupancy levels in Downtown hotels amid a precarious supply-demand balance.
NOT USE-SPECIFIC	**Efficient Public Transit**	N/A	The primary trait of an efficient and well-utilized public transit system is that it carries high volumes of people to highly trafficked and desirable destinations. While RCLCO does not claim expertise in transit service optimization nor system design, RCLCO recognizes that as Chattanooga adds households and jobs in its Downtown, transit becomes all the more important as a means of alleviating traffic and reducing dependence on cars. CARTA has already made substantial efforts to modernize the existing system, procuring new rolling stock with wireless charging technology, but future ridership will depend on further system improvements.
NOT USE-SPECIFIC	**Effective Placemaking**	N/A	Creating a strong sense of place in commercial areas, parks, and in other public spaces creates foot traffic and supports a vibrant atmosphere for both residents and visitors. River City programs like the Broad Street revitalization project and Miller Plaza exemplify how redesigning public spaces to draw residents, employees, and visitors outdoors can help attract private investment and value tenants for vacant commercial spaces. The Sprouts grant program is also a useful example of how to channel public dollars to benefit local businesses, who in turn build a sense of authenticity and cultural richness along major commercial corridors. Each of these existing programs should serve as blueprints for successful place governance as Chattanooga's Downtown continues to grow and evolve.

Source: RCLCO

POTENTIAL OPPORTUNITY SITES

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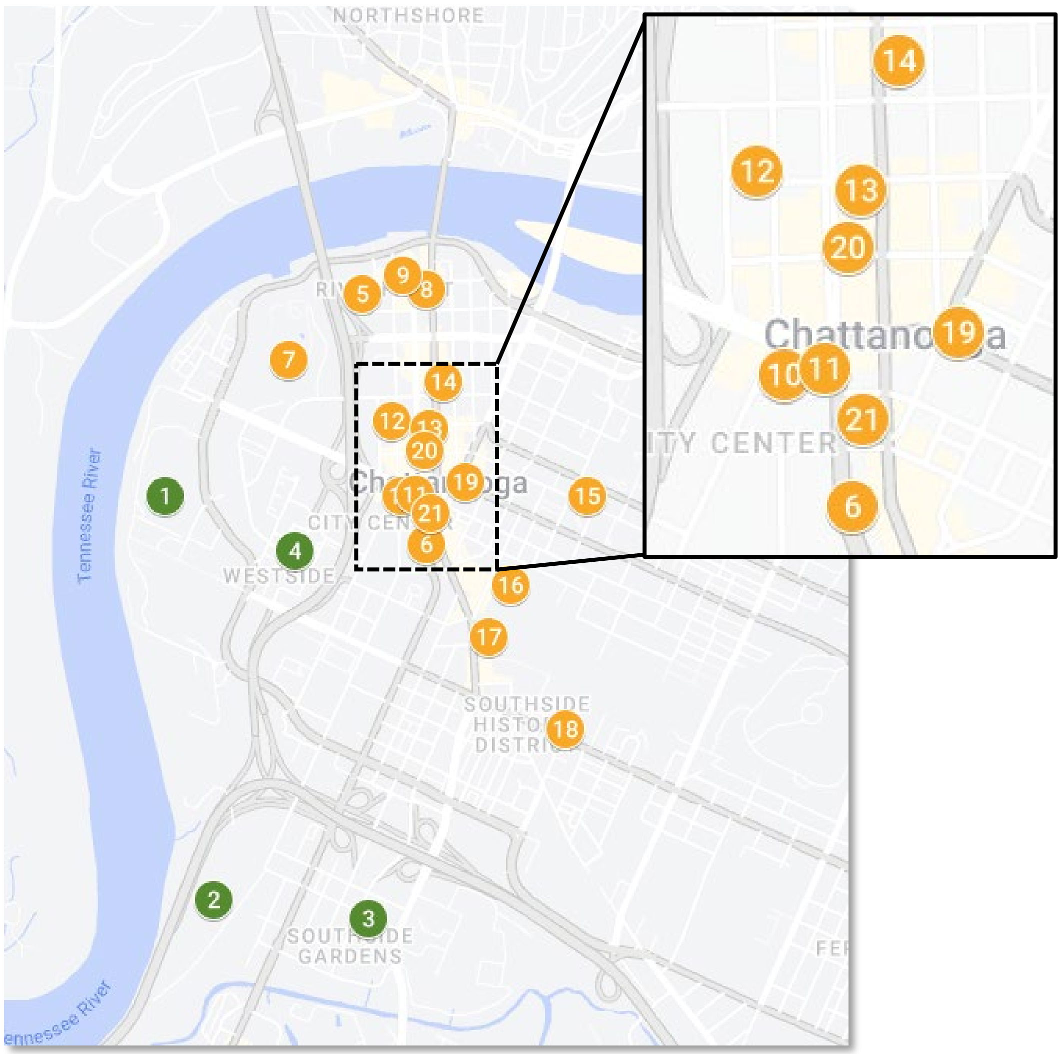
Over the course of our study, particularly our site analysis, RCLCO identified a number of potential opportunity sites in addition to sites where major developments are already anticipated. These strategic sites include several older, larger office assets with major tenants—the kind of office properties that RCLCO perceives as most at risk of chronic vacancy in the near term—as well as underutilized parcels, including parking lots and legacy industrial sites. RCLCO believes that these sites, based on their location and current conditions, present compelling opportunities for (re)development in line with the recommendations made in our market analysis and critical success factors identified on Page 13.



MAP KEY	NAME	CURRENT CONDITIONS
SITES OF MAJOR PLANNED DEVELOPMENT		
1	The Bend (Tentative)	Industrial; low-rise office
2	U.S. Pipe/Wheland Site	Legacy industrial; vacant
3	South Broad District	Low-density residential; school
4	Westside	Low-density residential
POTENTIAL OPPORTUNITY SITES		
5	Hawk's Hill	AT&T Field; parking; green space
6	TVA	Mid-rise office; garage parking
7	Cameron Hill	Mid-rise office campus
8	Market & Aquarium	Surface parking lots
9	Aquarium Parking Lot	Surface parking lot
10	Tallan Building	Mid-rise office
11	UBS Building	Mid-rise office
12	Republic Centre	High-rise office
13	First Horizon Building	High-rise office
14	Unum Parking	Surface parking lot
15	First Christian Science Church	Church; surface parking
16	ADM Milling Site	Legacy industrial
17	Pilgrims Pride	Legacy industrial
18	Architectural Surfaces Lot	Surface parking lot
19	Volunteer Building Parking Lot	Surface parking lot
20	Chattanooga Bank Building	Mid-rise office
21	Civic Forum Lot	Surface parking lot

Source: RCLCO

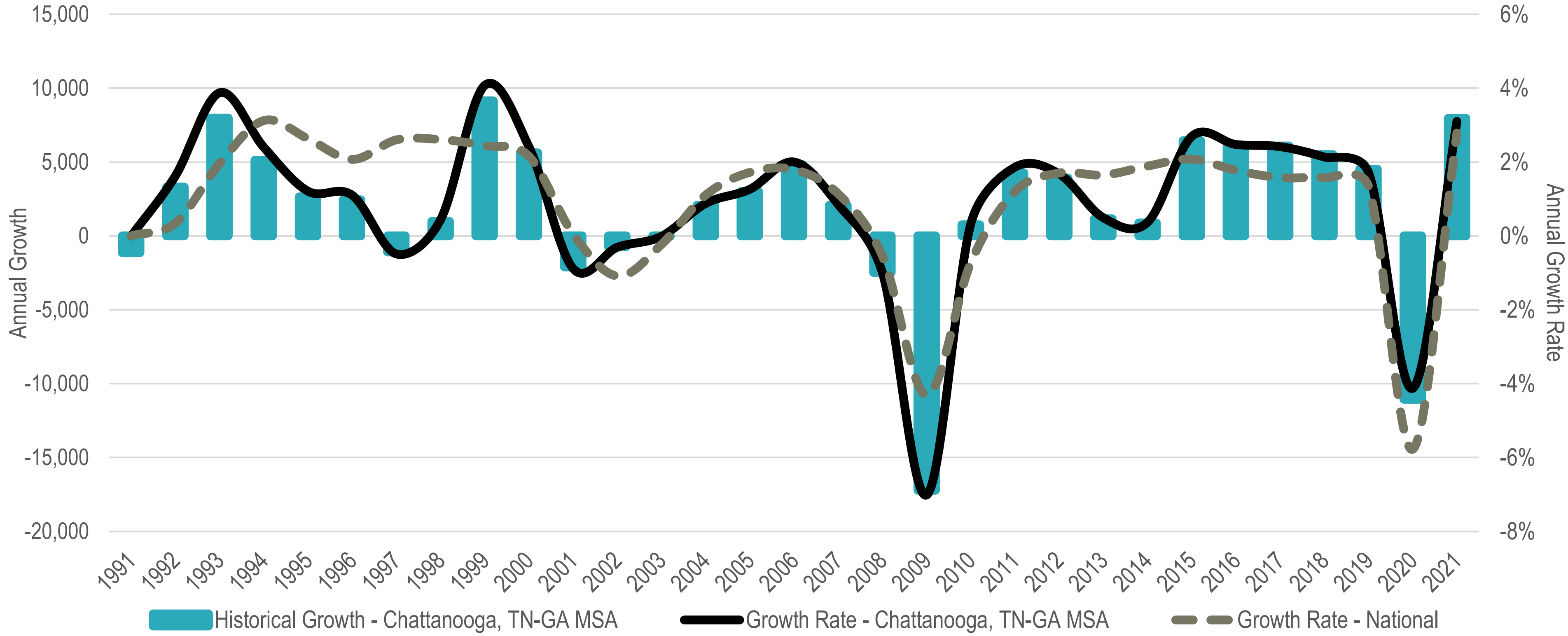
REGIONAL OVERVIEW

IN RECENT YEARS, THE REGIONAL ECONOMY OF CHATTANOOGA HAS OUTPACED THE COUNTRY AS A WHOLE IN TERMS OF ECONOMIC GROWTH, SHOWING PARTICULAR RESILIENCE DURING THE PANDEMIC

- From 2010 to 2019, the Chattanooga MSA added nearly 40,000 jobs, with over 70% of this growth taking place in the five years from 2015 to 2019 since the completion of the "Gig City" initiative. This translates to an average annual growth rate of 1.6%, slightly above the national average of 1.4%.
- Outsized job growth relative to national rates persisted during the pandemic-induced economy downturn in 2020, in part due to the diversity of the region's core economic drivers, as well as the business-friendly environment in Chattanooga. Regional year-over-year job growth declined 4.1% in 2020, still significantly above the national rate of decline of 5.8%. The regional economy bounced back in 2021, maintaining its outperformance of national employment growth trends, and Chattanooga appears poised for continued growth as key employers—namely, Volkswagen—plan to grow their presence in the region.

Historical Employment Growth

Chattanooga, TN-GA MSA vs. National Average; 1991-2021



Source: Moody's Analytics; RCLCO

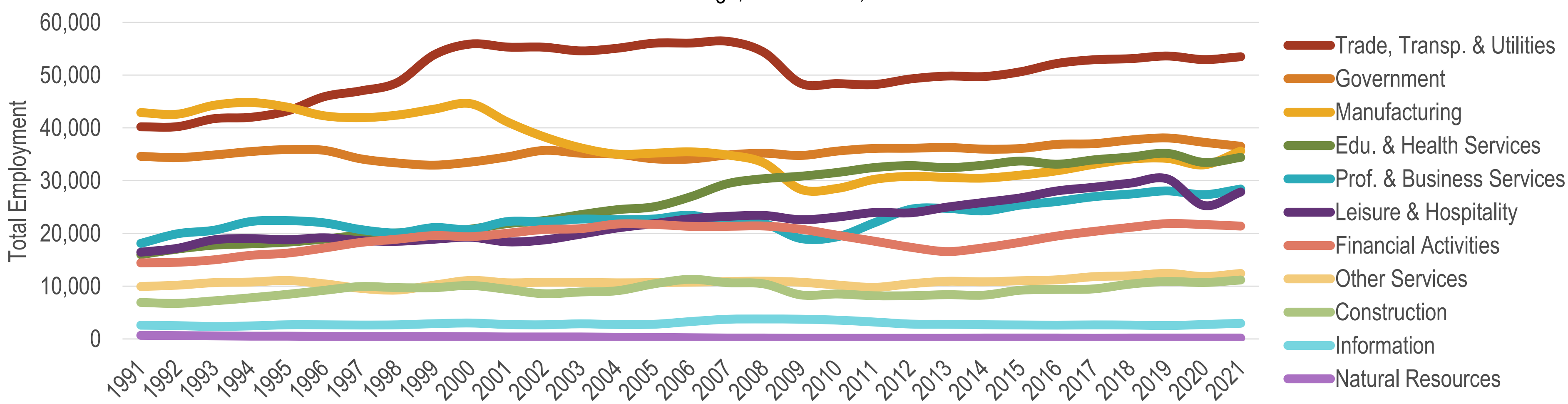
THE REGIONAL ECONOMIC MAKEUP OF CHATTANOOGA IS DIVERSE; WHILE STILL LED BY THE TRADE, TRANSPORTATION & UTILITIES SECTOR, OTHER PRIVATE SECTOR INDUSTRIES ARE GROWING RAPIDLY

- From 2010 to 2019, the Professional & Business Services industry added over 9,000 jobs, leading the region. While smaller in size, other sectors also experienced significant growth, including Manufacturing, which accounted for 20% of total regional job growth, and Leisure & Hospitality, which accounted for 13% of total growth.
- These growth trends reflect unique regional drivers that have shaped Chattanooga into a national hub for advanced manufacturing and technology. Accelerated growth since 2015 has coincided with the rollout of the city-wide gigabit network, in addition to sustained expansion of Volkswagen's manufacturing operations at its plant.

Comparison of Job Growth by Industry
Chattanooga, TN-GA MSA; 2010-2019

	TOTAL GROWTH		AVG. ANNUAL	
INDUSTRY	#	%	#	%
Prof. & Business Services	9,020	46.5%	820	3.5%
Manufacturing	7,090	24.8%	645	2.0%
Trade, Transp. & Utilities	5,093	10.5%	463	0.9%
Leisure & Hospitality	4,741	20.5%	431	1.7%
Edu. & Health Services	2,859	9.1%	260	0.8%
Construction	2,661	31.3%	242	2.5%
Other Services	2,189	21.4%	199	1.8%
Financial Activities	1,726	8.8%	157	0.8%
Government	917	2.6%	83	0.2%
Natural Resources	66	60.6%	6	4.4%
Information	-598	-16.8%	-54	-1.7%
TOTAL	**35,764**	**15.6%**	**3,251**	**1.3%**

Historical Employment Growth by Sector
Chattanooga, TN-GA MSA; 1991-2021



Note: Table excludes 2020 data to focus on growth prior to the COVID-19 pandemic.

Source: Moody's Analytics; RCLCO

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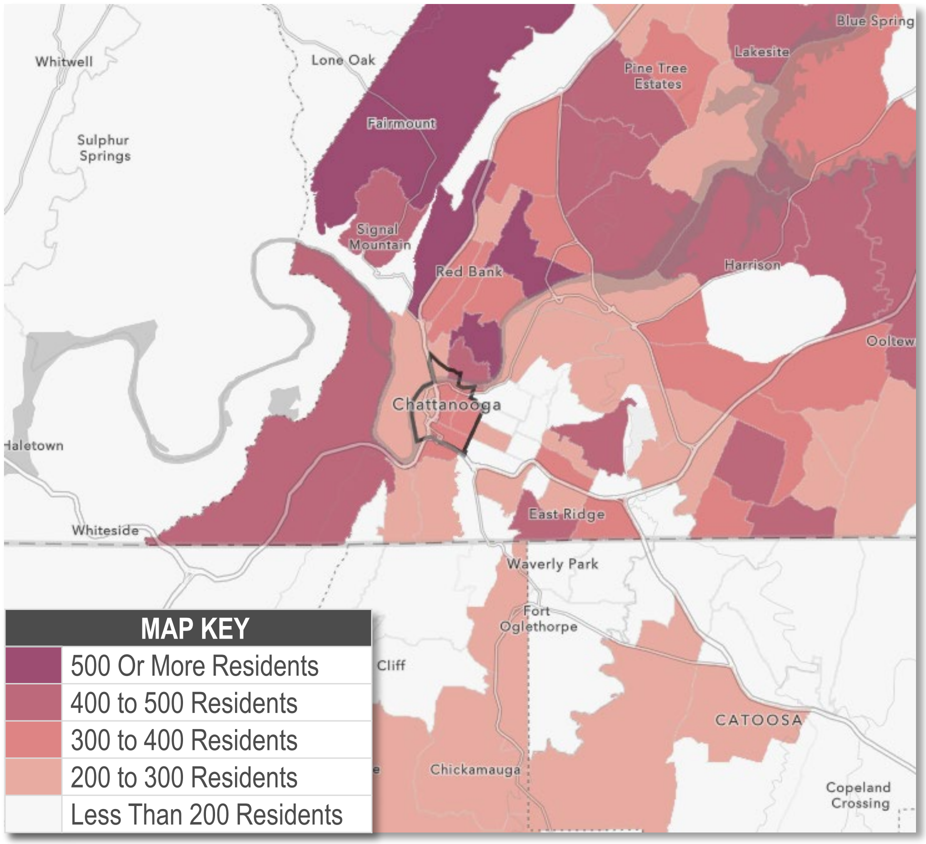
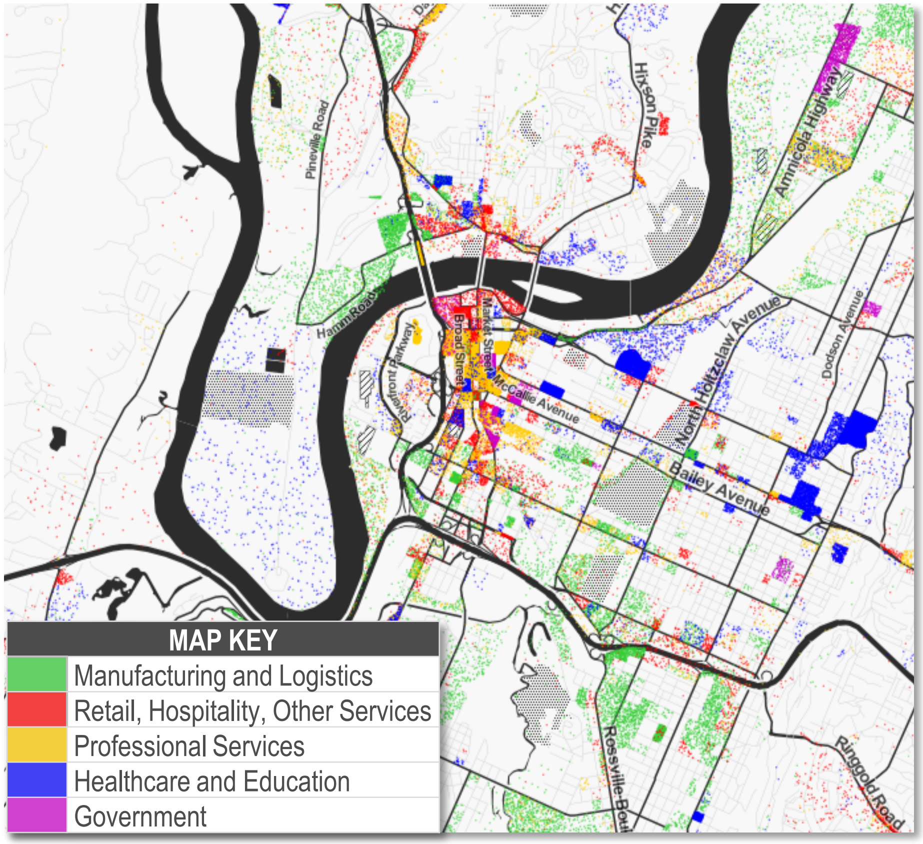
REFLECTIVE OF ITS HISTORICAL ROOTS AS A NINE-TO-FIVE OFFICE DISTRICT, DOWNTOWN CHATTANOOGA DRAWS THOUSANDS OF EMPLOYEES ACROSS A VARIETY OF INDUSTRIES FROM OUTLYING SUBURBS

- While over 1,300 Downtown residents also work in the central business district, the vast majority of Downtown employees (over 35,000) are suburban commuters—largely from areas north of Downtown—who work across several sectors of the regional economy. Professional & Business Services jobs are particularly clustered in City Center given the prevalence of corporate office tenants in Downtown, including Unum and Blue Cross/Blue Shield.
- A substantial number of residents also commute to nearby healthcare and education employment nodes, including the University of Tennessee at Chattanooga and the Erlanger Hospital, which is situated just outside of Downtown. The Erlanger Health System is one of the region's largest employers, with over 6,000 employees total.

Home Census Tracts of Area Workers
Downtown Chattanooga; 2019



Concentrations of Employment
Downtown Chattanooga; 2019

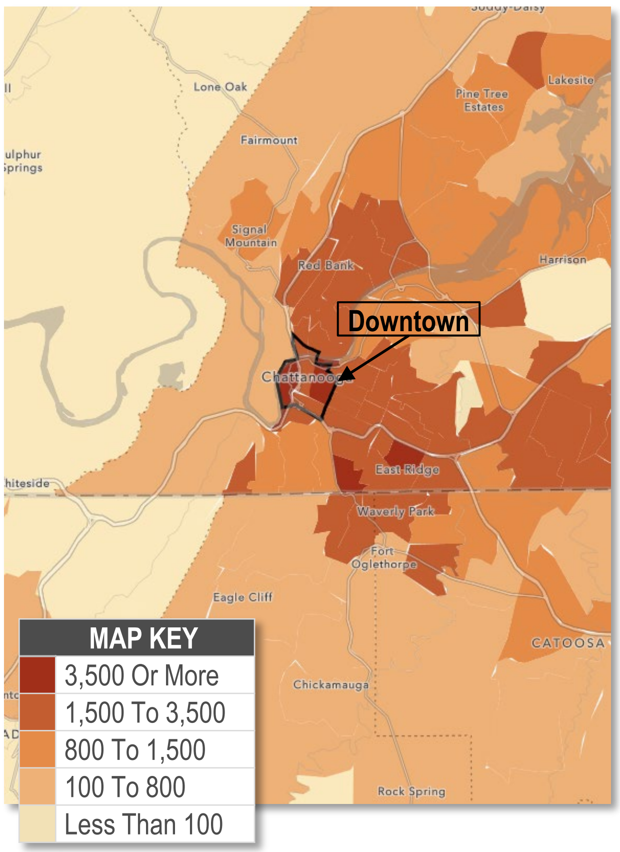


Source: LEHD Employment Data; RCLCO

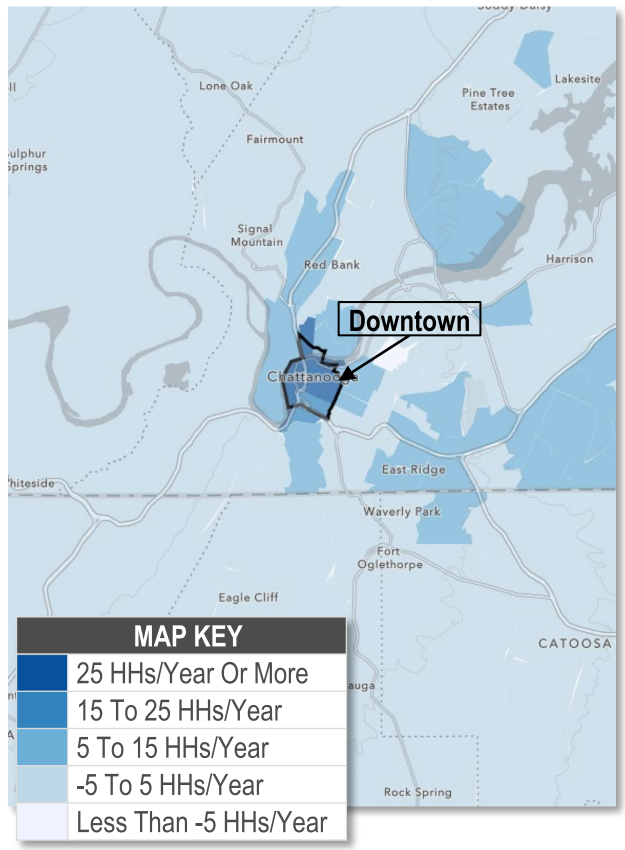
OVER THE LAST DECADE, DOWNTOWN CHATTANOOGA HAS GROWN MORE RAPIDLY THAN ITS COMPARATIVELY AFFLUENT SUBURBS, REFLECTING A GROWING PREFERENCE FOR DENSE, URBAN LIVING

- Downtown Chattanooga has experienced significant revitalization over the last few decades, as the opening of new attractions (e.g. the Tennessee Aquarium in 1992) and the development of vibrant, attractive public spaces and commercial districts have spurred billions in private investment and lured new residents from both the suburbs and out-of-state. While more outlying communities—such as St. Elmo, North Chattanooga, and Hixson—are home to wealthier households with greater tendencies to own as opposed to rent their homes, Downtown has grown into a diverse and vibrant area where people are increasingly choosing to live.

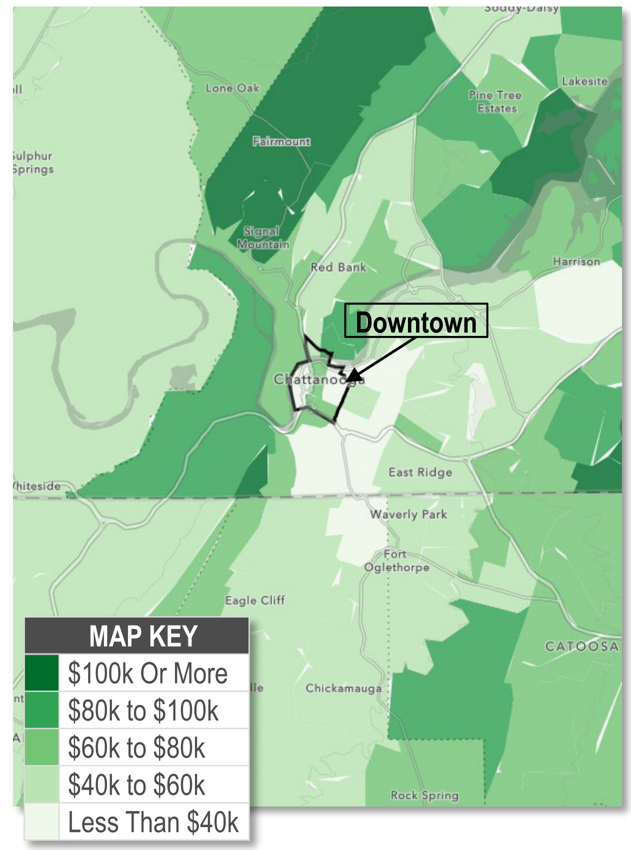
Population Per Square Mile by Census Tract
Chattanooga, TN-GA MSA; 2022



Annual Household Growth per Square Mile
Chattanooga, TN-GA MSA; 2010-2021



Median Household Income by Census Tract
Chattanooga, TN-GA MSA; 2022



Source: Esri; RCLCO

SITE CONTEXT

POINTS OF INTEREST

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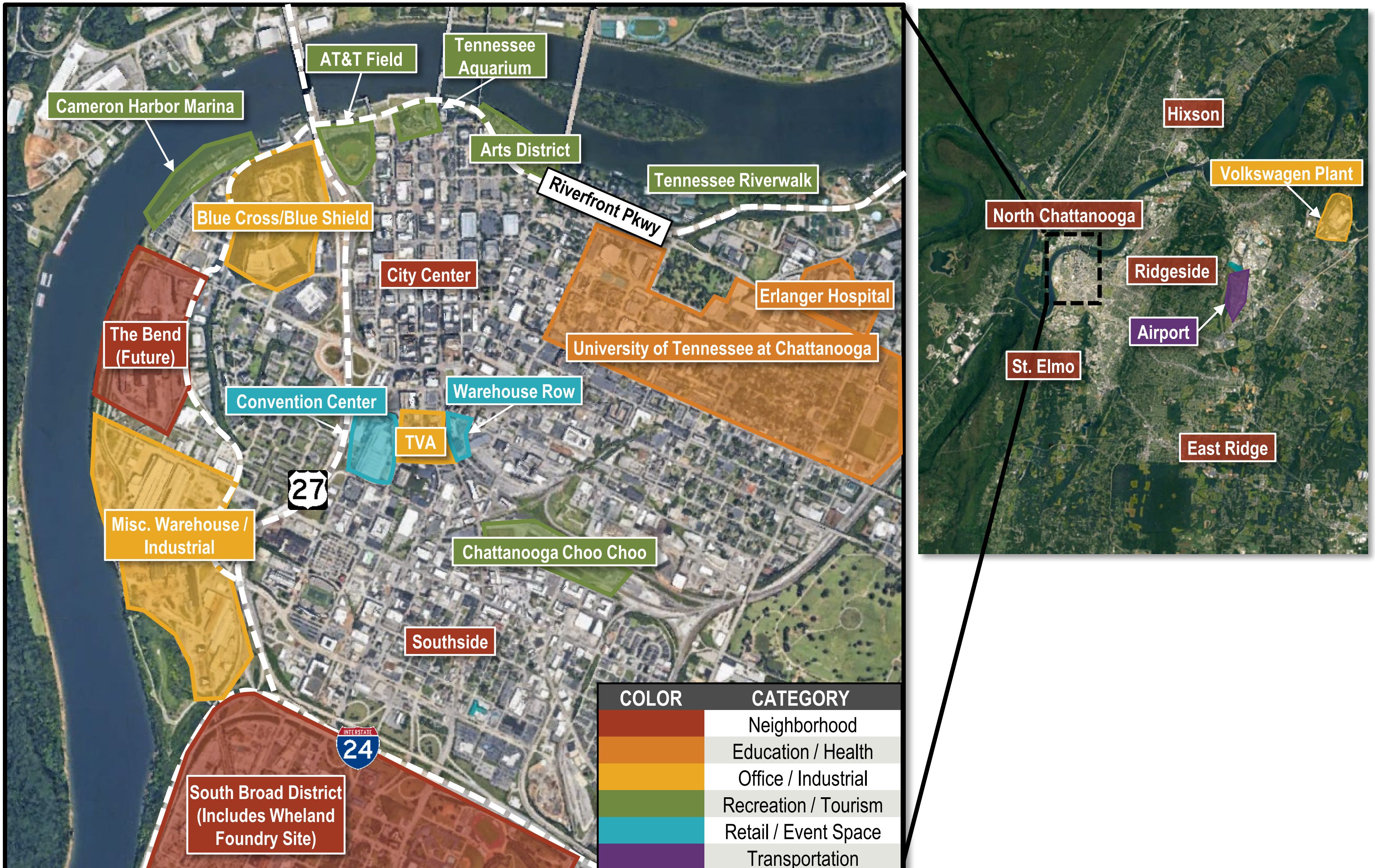

SUBMARKET COMPARISON

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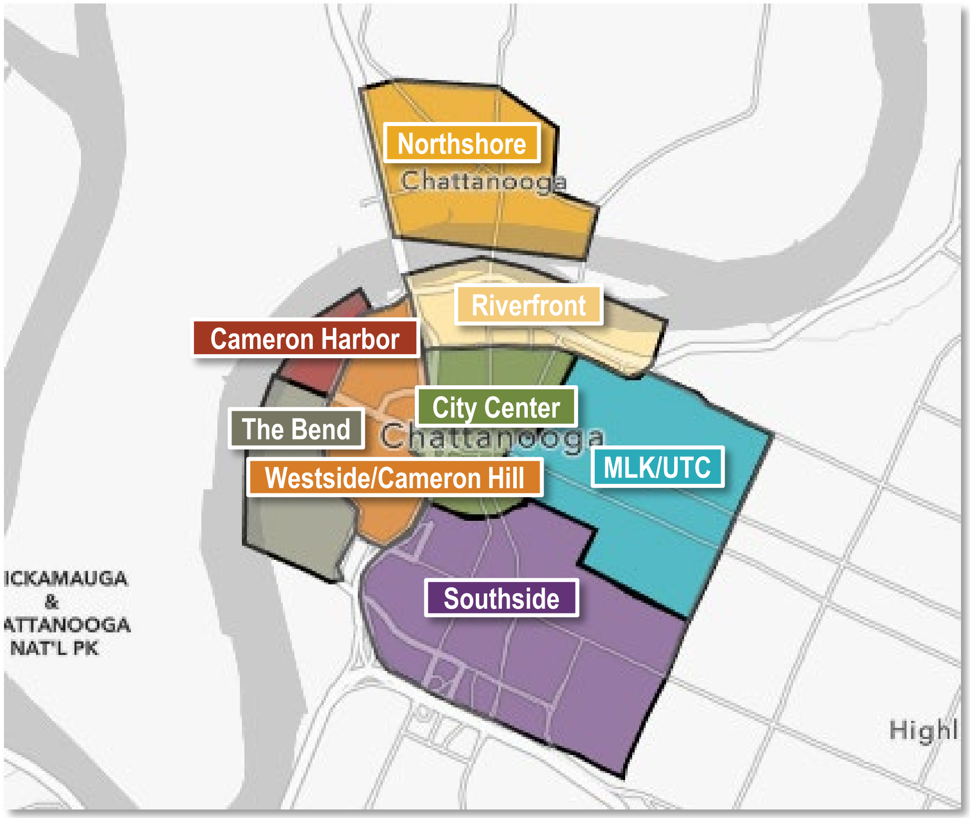
MOST DOWNTOWN RESIDENTS LIVE EAST AND SOUTH OF CITY CENTER, WHILE CITY CENTER IS HOME TO THE MAJORITY OF HOSPITALITY AND OFFICE PRODUCT

- River City recognizes seven Downtown submarkets differentiated by economic, demographic and physical character. *The Bend* is a future neighborhood that is planned for mixed-use development, but its site plan is largely speculative.
- MLK/UTC and Southside are the two most populated submarkets, collectively accounting for 55.1% of Downtown Chattanooga's total population. Southside is also comparatively high-income relative to other populous submarkets, including Westside/Cameron Hill, in part because over a third of Westside residents are over the age of 60 and thus nearing retirement or are already out of the workforce.
- Containing over 6,000,000 square feet of office product, City Center is the economic hub of Downtown. The submarket's large employment base supports over a million square feet of retail as well as a significant hospitality presence, which serves both business and leisure travelers.
- The stark division between residential and commercial nodes in these eight Downtown submarkets highlights a compelling opportunity to enhance synergies between uses, where residential product buoys the performance of nearby retail and office product. A market-driven mix of uses for each submarket could greatly enhance the economic vitality and vibrancy of Downtown.



	Cameron Harbor	Westside/ Cameron Hill	Northshore	Riverfront	City Center	MLK/UTC	Southside	*The Bend*
COLOR CODE								
Total Population	948	2,435	1,473	803	746	4,613	3,311	*49*
Population % of Downtown	6.6%	16.9%	10.2%	5.6%	5.2%	32.1%	23.0%	*0.3%*
Median Age	47.6	46.3	37.3	40.9	45.8	22.9	35.3	*45.0*
Median Household Income	$13,256	$13,274	$64,326	$62,305	$61,908	$43,673	$75,133	*$13,235*
Total MF Rental Units	553	1,050	491	385	321	494	1,866	*0*
Total Office SF	55,439	1,020,357	330,082	216,926	6,056,509	1,027,584	997,038	*260,609*
Total Retail SF	4,200	26,412	212,843	293,115	327,557	81,969	201,198	*0*
Total Hotel Rooms	116	92	0	404	1,616	16	673	*0*

Note: Borders of Northshore neighborhood were expanded for this comparison to capture true residential/retail mix

Source: ArcGIS; Esri; CoStar; RCLCO

ANALYSIS OF EXISTING CONDITIONS

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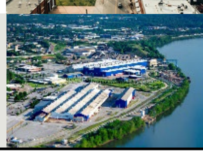
UNIQUE DEMAND DRIVERS AND LOCATIONAL ADVANTAGES POSITION DOWNTOWN FOR FUTURE GROWTH, BUT SEGMENTATION OF USES AND PHYSICAL DIVIDES BETWEEN NEIGHBORHOODS ARE KEY CONSTRAINTS

SUBMARKET		CURRENT CONDITIONS	OPPORTUNITIES	CHALLENGES
Cameron Harbor		Primarily residential, with newer multifamily and single-family attached product. Along Riverwalk, and features marina, but Cameron Hill divides submarket from neighborhoods to the east.	Prospect of rent growth tailwinds from eventual delivery of *The Bend*, while still providing lower-density alternative to multifamily product at *The Bend* and elsewhere in Downtown.	Mostly built out with physical barriers limiting further growth; also constrained by lack of neighborhood-serving retail.
Westside/ Cameron Hill		Contains public housing stock and Blue Cross/Blue Shield office campus atop Cameron Hill, but very little retail to serve current residents and employees.	Potential development at *The Bend* will create pressure to urbanize Westside in order to "fill in the gaps" and connect with City Center.	Existing uses are relatively inefficient use of land, but redevelopment may be prohibitively expensive.
Northshore		Significant concentration of retail, including grocery, which draws residents from North Chattanooga and Downtown. Recreational amenities along riverfront.	Superior retail access and developable land creates strong opportunity for rental and for-sale residential product.	Significant retail deliveries planned for *The Bend* may draw prospective customers away from Northshore, particularly residents of Southside and other populous area south of the river.
Riverfront		Primary entertainment district of Downtown, with the Tennessee Aquarium, AT&T Field, and Bluff View Art District, all connected by Riverwalk.	Vibrant public spaces and streetscape appeals to visitors, with room to improve neighborhood-serving uses in line with Riverfront District Master Plan.	Abundance of recreational and cultural amenities and visitor attractions detracts from neighborhood feel.
City Center		Expansive supply of high-rise office and hotel properties, with some lifestyle retail, but very little residential apart from limited adaptive reuse.	Opportunity to add infill residential product to increase number of residents who both live and work in Downtown and create truly 24/7 live-work-play environment.	Adaptive reuse is compelling way to preserve historic buildings but is difficult to accomplish at scale. Also, competition with *The Bend* in the near term could inhibit office absorption.
MLK/UTC		Lower density than Riverfront and City Center, mixed with purpose-built student housing, bars, and restaurants clustered along MLK Boulevard.	Strength of employment base and steady demand from UTC students create robust demand for mixed-use infill development.	Lack of readily accessible neighborhood-serving retail, particularly grocery stores, considering this is one of the most populous areas of Downtown.
Southside		Anchored by *Chattanooga Choo Choo*, featuring variety of restaurants, coffee shops, entertainment, and mostly low-density residential.	Great sense of place and small business culture are natural draws for prospective residents from out of state and suburbs.	Aging infrastructure and underutilized commercial corridors present aesthetic challenges.
The Bend* *(Speculative)		*Large-format industrial with some medical office; mostly blighted and unattractive.*	*Significant residential, retail, hotel, and office deliveries will create vibrant, mixed-use environment that will boost influx of residents and commercial tenants.*	*Planned development (especially office and retail) represents a record expansion of supply for Downtown, including product with little market precedence (e.g. Class A office).*

RENTAL MARKET ANALYSIS

PRODUCT TYPE SEGMENTATION

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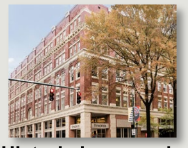
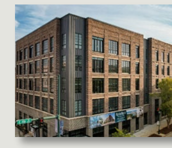
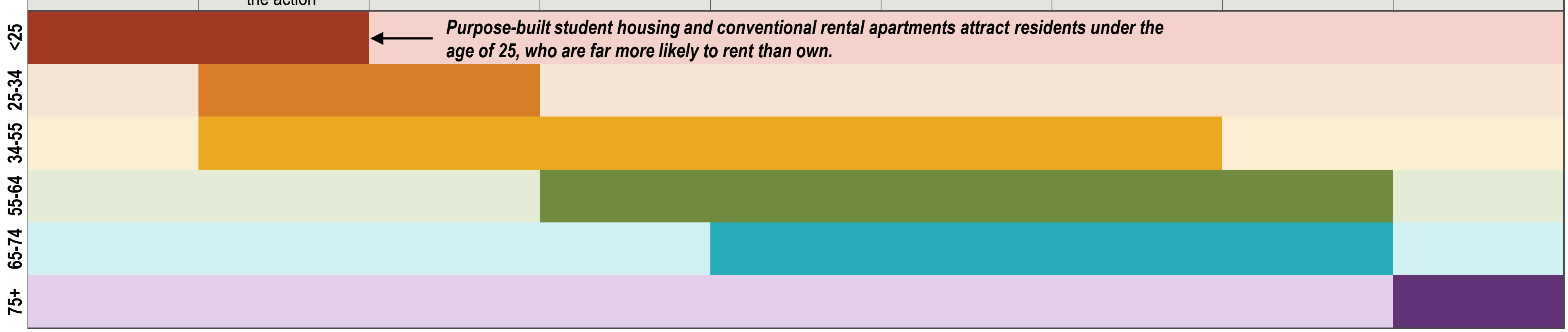
BOTH RENTAL AND FOR-SALE RESIDENTIAL PRODUCT TEND TO APPEAL TO DIFFERENT AGE GROUPS AND HOUSEHOLD ARRANGEMENTS, NECESSITATING ATTENTIVENESS TO DIFFERENT HOUSEHOLD NEEDS AND PREFERENCES

	PURPOSE-BUILT STUDENT HOUSING	CONVENTIONAL RENTAL APARTMENTS	RENTAL TOWNHOMES	FOR-SALE CONDOS	RENTAL SINGLE-FAMILY HOMES (STANDARD)	FOR-SALE TOWNHOMES	FOR-SALE SINGLE-FAMILY HOMES	EMPTY NESTER-TARGETED APARTMENTS	SENIORS HOUSING
EXAMPLE:	 Douglas Heights	 17 Broad	 Village Cameron Harbor	 Historic Loveman's Building	 Hartman Hill	 Walnut Hill Townhomes	 St. Elmo	 River Rock	 Manorhouse
DESCRIPTION:	Rental apartments intended for students living off-campus; often leased by bed	Apartments with diverse floorplans and layouts, ranging from studios to 3+ BR units	Single-family attached homes, typically with more space than conventional apartments	Multifamily units with various layouts that feature higher caliber of finishes and design than rental apartments	Rental single-family homes with layouts that "live" more like for-sale product (2,000+ SF)	Attached single-family homes that offer luxury standard of living in dense, walkable neighborhoods	Detached single-family homes of various sizes, with front lawn, backyard, and driveway or street parking	Rental apartments with luxury features and large floorplan that "live" more like single-family homes	Independent or assisted living, featuring some level of care for residents
APPEALS TO:	Undergraduates looking for an apartment living experience outside of on-campus dormitories	Broad segments of the population, including younger and mature professionals who prefer to live "close to the action"	Transitional rental segments looking to move to less dense but still central neighborhoods	Professionals and couples that value accessibility to major employment nodes and prefer dense, urban living	More affluent renters-by-choice, families, and empty nesters looking for lower-maintenance living	Wealthier professionals, young families, and empty nesters who prefer the vibrancy of urban neighborhoods	Families looking to "settle down" in more suburban neighborhoods; empty nesters aging in place	Empty nesters who want convenience of renting without sacrificing the space they are used to	Retirees and other mature individuals who require some level of care and/or services

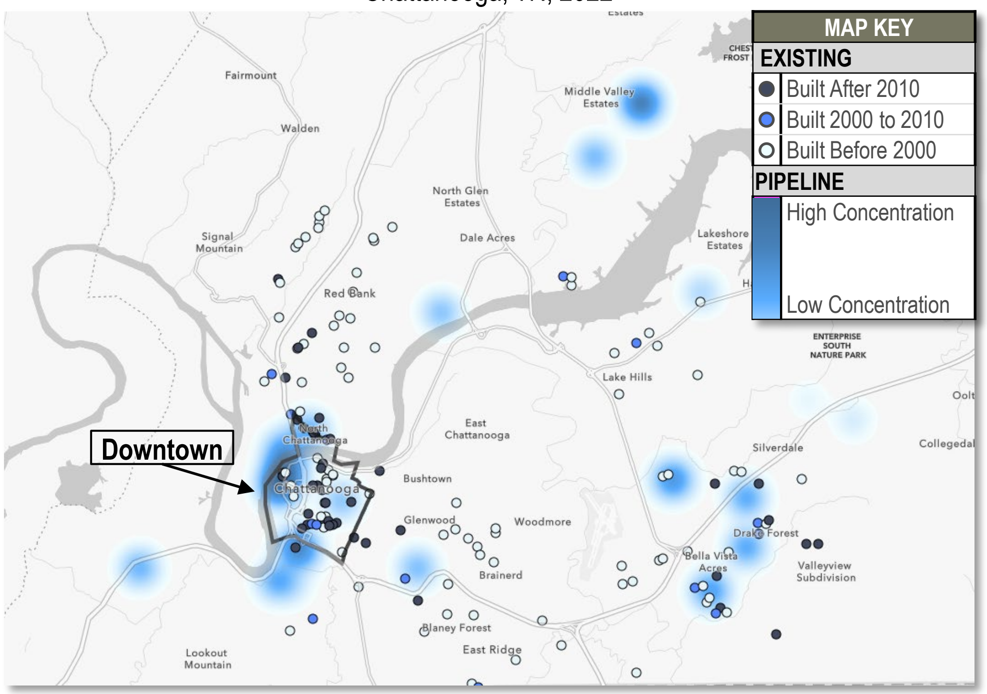


Source: CoStar; Property Websites; RCLCO

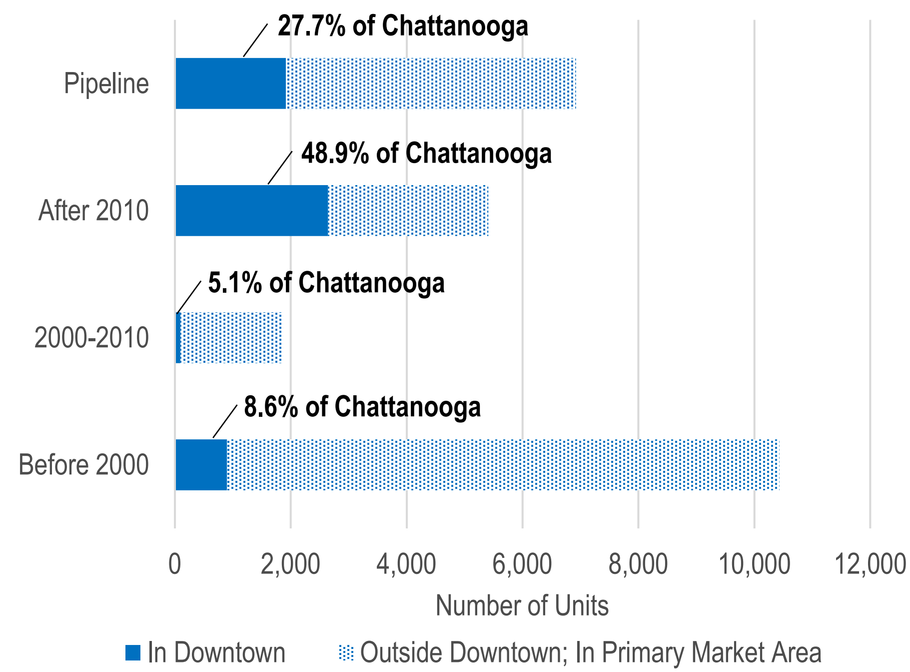
IN RECENT YEARS, MULTIFAMILY RENTAL DEVELOPMENT HAS CONCENTRATED DOWNTOWN, WITH A SIGNIFICANT PORTION OF THE PIPELINE ALREADY SLATED TO DELIVER IN AND AROUND DOWNTOWN OVER THE NEXT DECADE

- Since 2010, roughly 2,600 rental apartment units have delivered in Downtown Chattanooga, compared to 2,800 additional units in the PMA but outside of Downtown. Moreover, almost a third of under construction, planned, and proposed rental apartments in Chattanooga are located in Downtown Chattanooga, indicating that the market will continue its ongoing shift to Downtown in response to robust demand for urban living in the Chattanooga region.
- Although Downtown Chattanooga is likely to attract a significant share of growth, it is important to note that the overall level of potential growth in Downtown is constrained by the availability and cost of land. While nearly half of rental apartments delivered in Chattanooga between 2010 and 2022 have been located Downtown, the shrinking capture of Downtown Chattanooga as reflected in the pipeline is nearly inevitable in the long term. As the region continues to add jobs and households, urban growth will likely sprout up in more outlying neighborhoods, where sites are more abundant vis-à-vis Downtown and the PMA. This does not mean that compelling infill and redevelopment opportunities do not exist Downtown, and it is clear that the regional market continues to exhibit a preference for dense, mixed-use neighborhoods.

Map of Existing, Under Construction, and Planned Rental Apartment Buildings
Chattanooga, TN; 2022



Distribution of Existing and Pipeline Units by Year Built
Chattanooga, TN; 2022



Note: Exact unit quantity is not available for all planned communities in the pipeline.

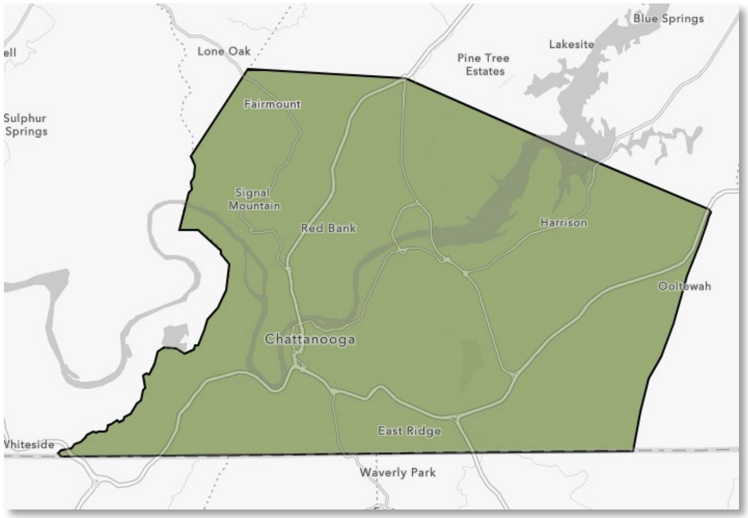
Source: Axiometrics; CoStar; RCLCO

NET ABSORPTION HAS HISTORICALLY KEPT UP WITH NEW DEVELOPMENT, DEMONSTRATING CONTINUED DEMAND FOR RENTAL PRODUCT

- For the purposes of this analysis, RCLCO defined the Primary Market Area ("PMA"), or the area from which most demand for rental apartments at the subject site is likely to emanate, as the urbanized areas of the Chattanooga MSA—bounded by the border of Hamilton and Marion Counties to the west, the intersection of I-27 and Highway 153 to the north, Ooltewah-Ringgold Road to the east, and the Tennessee-Georgia border to the south.
- The pace of new deliveries accelerated after 2015 (coinciding with the rollout of Chattanooga's gigabit network), with 862 units delivered per year on average through 2020, 38% of which were absorbed Downtown. Net absorption rose to meet inventory growth, and averaged 859 units absorbed per year over the same timeframe. However, vacancy remained elevated from 2015 to 2020, at 8.4%, reflecting the infancy of the Chattanooga multifamily market.
- However, 2021 upended the supply-demand balance in the PMA, as the market absorbed 1,100 units while delivering only 320, causing vacancy to dip down to 5% and effective rent growth to skyrocket to 14.6%. Downtown's capture of net absorption in 2021 also rose to 39%, reflecting increased interest in Downtown living.

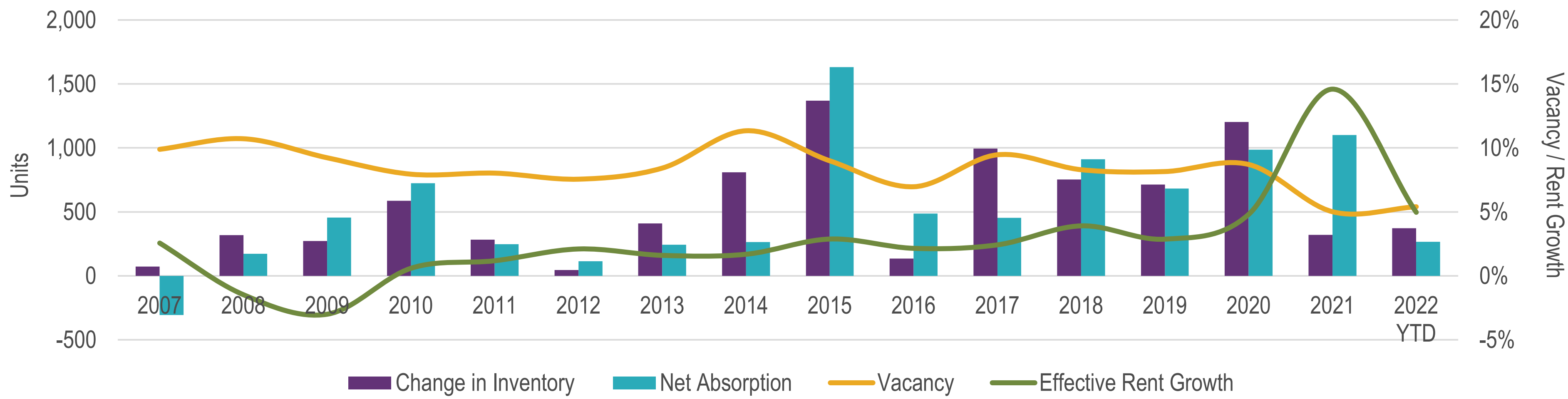
Primary Market Area

Chattanooga, TN; October 2022



Completions, Absorptions, Vacancy, and Rent Growth

Primary Market Area; 2007-2022 YTD



Note: 2022 year-to-date data is through October 2022. Above graph includes properties currently in lease up.

Source: CoStar; RCLCO

WHILE DOWNTOWN HAS HISTORICALLY OUTPACED THE PMA IN TOTAL RENT, NEW PRODUCT OUTSIDE OF DOWNTOWN CLOSES THE GAP

- In examining historical rent trends, Downtown has continued to outpace the Primary Market Area in terms of gross rent, driven in part but the more convenient location to employment hubs as well as attraction of urban living. Rent growth generally trended together, though there was more volatility in the Downtown market likely due to the smaller scale.
- However, starting in 2018, the PMA started to outpace Downtown in terms of rent growth, which has only exacerbated in the pandemic due to preferences shifting for additional space and convenience to outdoor amenities. However, in 2021, when most urban areas saw record increases in effective rent growth, the PMA continued to have stronger performance overall, with 14.6% rent growth compared to 4.4% Downtown.
- In addition to some renter preference changes during the pandemic, the other driving factor is the amount of new product delivering in the PMA outside of Downtown, as areas like South Broad and St. Elmo gain popularity and new product in Downtown has been limited. This would further push up effective rents in the PMA, closing the gap between the PMA overall and Downtown nominal rents.

Nominal Rent Trends

Primary Market Area and Downtown Chattanooga: 2007-2022 YTD

Note: 2022 year-to-date data is through October 2022. Above graph includes properties currently in lease up.

Source: CoStar; RCLCO

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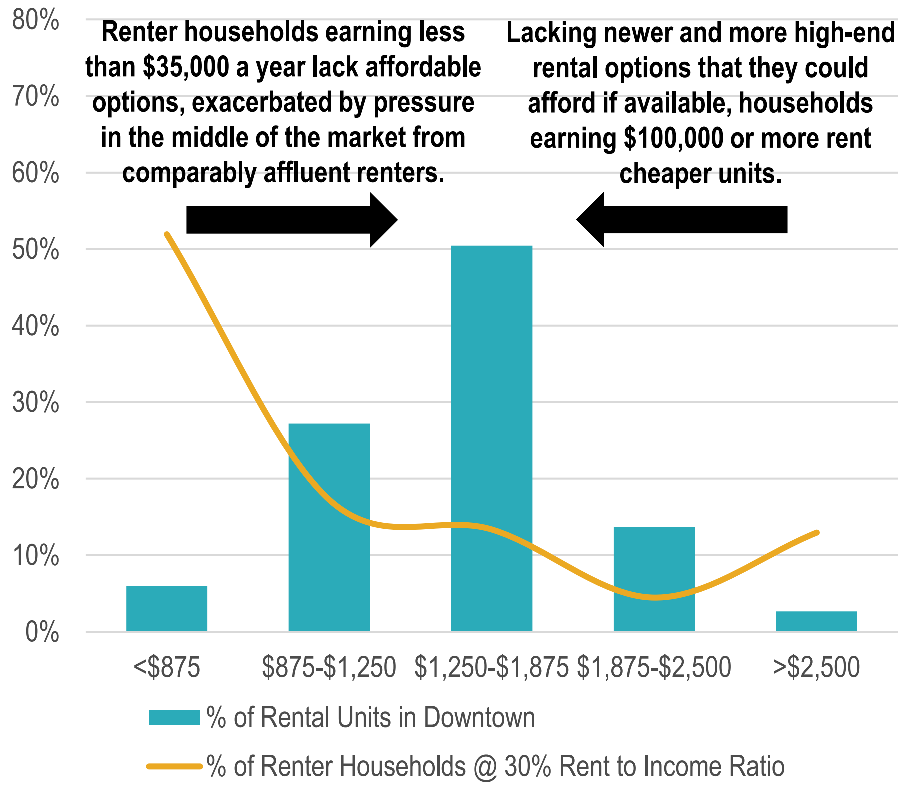
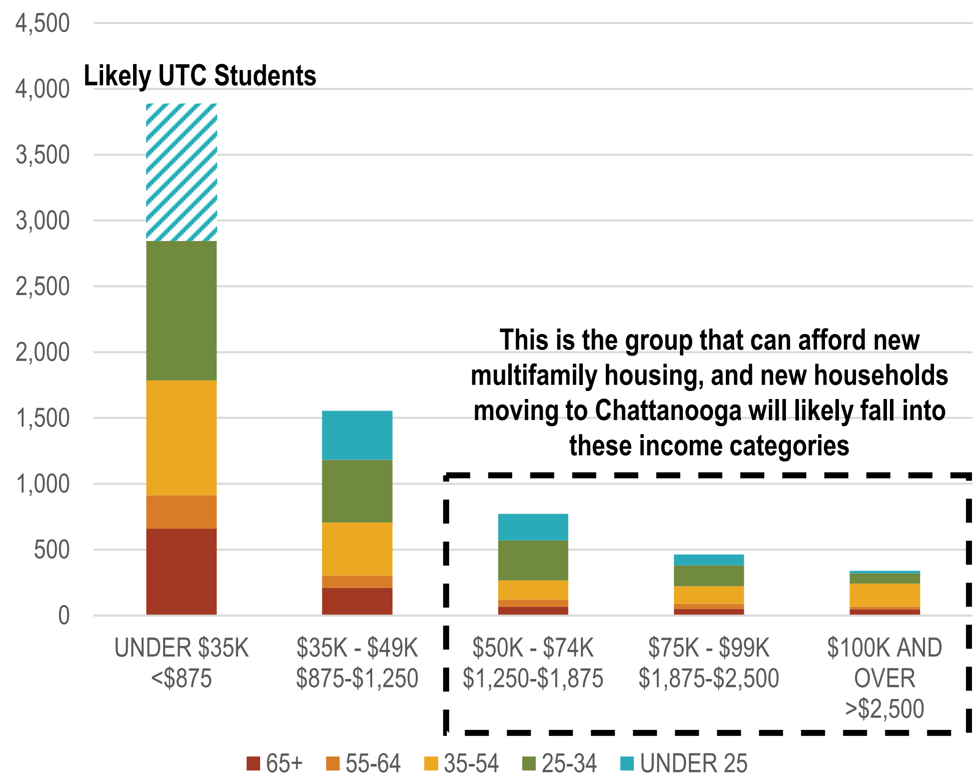
RENTAL UNITS IN DOWNTOWN CHATTANOOGA ARE MISALLOCATED BY PRICE, WITH MOST HOUSEHOLDS CROWDING TO THE MIDDLE OF THE MARKET

- To further evaluate how the current housing stock serves Downtown residents of all income levels, RCLCO compiled asking rents at apartment buildings in Downtown Chattanooga. Then, RCLCO compared these rents with how much renter households earn and thus could afford by spending 30% of their income. **Renter households earning less than $35,000 are underserved by the private market, but so are renter households earning over $100,000 per year, who rent units in the middle of the market** instead. Delivering product with top-of-market pricing is a necessary condition to alleviate tightness in the middle of the market, but the shortfall of affordable units is also a pressing issue for all renters. Affordable units targeted to renters earning less than $35,000 a year are in high demand given the quantity of low-income households in the renter market, although the market cannot profitably supply these units without subsidy.

Actual vs. Affordable Rent Levels for Multifamily Renter Households
Downtown Chattanooga; October 2022



Multifamily Renter Segmentation by Age and Income/Rent Level
Downtown Chattanooga; October 2022

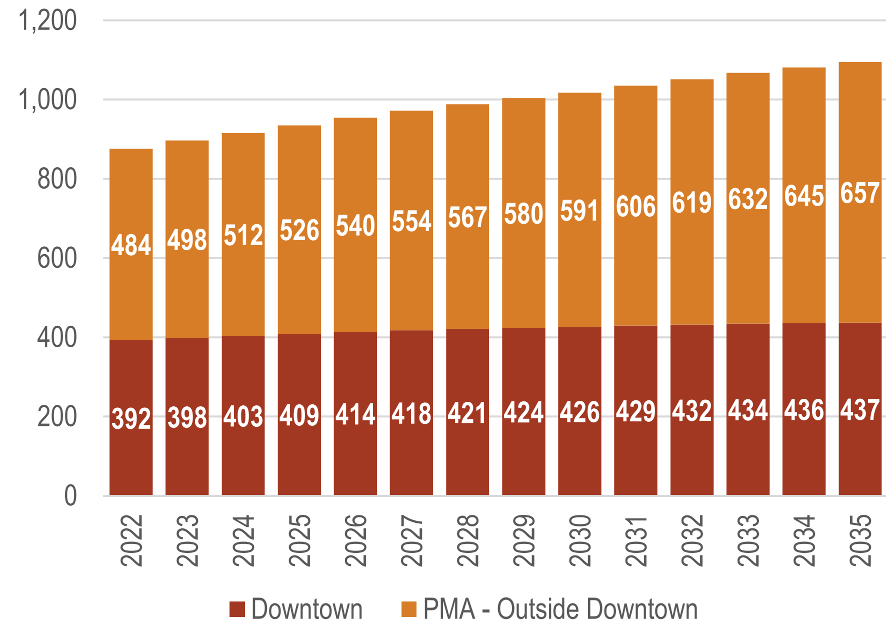


Source: CoStar; American Community Survey PUMS; RCLCO

GOING FORWARD, RCLCO PROJECTS DEMAND FOR AN AVERAGE OF 420 NEW RENTAL RESIDENTIAL UNITS DOWNTOWN EACH YEAR, WITH MULTIFAMILY RENTAL ACCOUNTING FOR MOST OF FUTURE DEMAND

- In order to project rental housing demand in Downtown Chattanooga, RCLCO first determined demand for new rental housing units at the MSA level, based on historical renter propensity to choose new product. RCLCO then forecasted capture rates for the PMA and then for Downtown Chattanooga based on observed capture trends and anticipated patterns of future development.
- RCLCO then segmented Downtown capture rates by product type, based on Downtown Chattanooga's current capture of single-family detached, single-family attached (townhome and small multifamily), and multifamily rental product in the PMA. From 2022 to 2035, our forecast projects average annual demand of 992 new rental units in the PMA and 420 units specifically in Downtown Chattanooga. For comparison, the PMA absorbed 827 multifamily rental units each year on average from 2017 to 2021 (see Page 27). Moreover, RCLCO expects that the rental market in Downtown Chattanooga will continue to benefit from steady household growth, rising rental propensity, and desire for new product at the regional level.

Projected Annual Demand for New Rental Units
Primary Market Area; 2022-2035



Downtown Capture of Projected Annual Demand for New Rental Units by Product Type
2022-2035

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
MSA TOTAL	**1,228**	**1,266**	**1,302**	**1,341**	**1,380**	**1,417**	**1,453**	**1,489**	**1,523**	**1,563**	**1,603**	**1,642**	**1,680**	**1,718**
PMA Capture of MSA	71.3%	70.8%	70.3%	69.7%	69.1%	68.6%	68.0%	67.4%	66.8%	66.2%	65.6%	65.0%	64.4%	63.7%
PMA TOTAL	**876**	**896**	**915**	**935**	**954**	**972**	**988**	**1,003**	**1,017**	**1,035**	**1,051**	**1,067**	**1,081**	**1,095**
Downtown Capture of PMA	44.8%	44.4%	44.1%	43.7%	43.4%	43.0%	42.6%	42.2%	41.9%	41.5%	41.1%	40.7%	40.3%	39.9%
DOWNTOWN TOTAL	**392**	**398**	**403**	**409**	**414**	**418**	**421**	**424**	**426**	**429**	**432**	**434**	**436**	**437**
Single Family Detached	8	8	9	9	9	10	10	10	11	11	11	11	12	12
Single Family Attached	13	15	16	18	19	21	23	25	26	29	31	33	36	38
Mutlifamily (5+ Units)	371	375	378	382	385	387	388	389	389	390	390	390	389	387

Source: Esri; American Community Survey PUMS; RCLCO

THE PRIMARY MARKET AREA CAPTURES AN OUTSIZED SHARE OF YOUNG ADULTS AS WELL AS YOUNG AND MIDDLE AGED PROFESSIONALS—UNSURPRISING GIVEN UTC'S DOWNTOWN LOCATION AND URBAN LIVING'S APPEAL TO YOUNGER RENTERS

- Young professionals are the largest segment of the market, representing 21% of demand for new rental apartments in the PMA. Young adults comprise a significant share of the PMA's renter household base—at 9.8%—as do middle aged professionals under 45—at 12.6%. These renter household segments are overrepresented in the PMA relative to the MSA, which mirrors broader national trends that indicate that these segments are most likely to live in dense, urban places, as they prioritize access to major employment nodes and the lifestyle retail and entertainment options commonly found in these neighborhoods.
- Mature professionals and empty nesters account for a combined 14% of the demand pool and are more likely to demand luxury units. Well-amenitized, luxury apartment communities that are effectively integrated with neighborhood-serving retail appeal most to these segments.

Household Segment Definitions and Composition of Renter Demand Pool

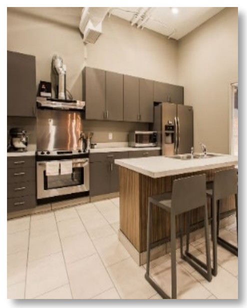
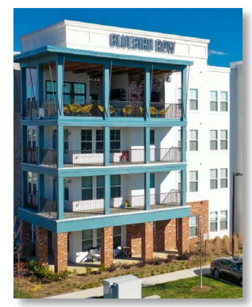
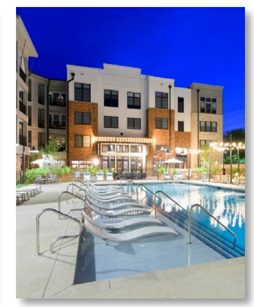
Primary Market Area; 2022

	AGE OF HOUSEHOLDER		AGE OF OLDEST CHILD		AGE OF YOUNGEST CHILD			% OF RENTERS IN MSA	% OF RENTERS IN PMA
SEGMENT	MIN	MAX	MIN	MAX	MIN	MAX	# OF CHILDREN		
Non-Family Segments									
Young Adult	15	24	N/A	N/A	N/A	N/A	0	7.9%	9.8%
Young Professional	25	34	N/A	N/A	N/A	N/A	0	18.8%	21.4%
Middle Aged Professional	35	44	N/A	N/A	N/A	N/A	0	10.3%	12.6%
Mature Professional	45	54	N/A	N/A	N/A	N/A	0	6.7%	6.3%
Empty Nester	55	64	N/A	N/A	N/A	N/A	0	8.5%	7.8%
Retiree	65	74	N/A	N/A	N/A	N/A	0	5.5%	5.9%
Senior	75	N/A	N/A	N/A	N/A	N/A	0	3.9%	3.3%
Family Segments									
Young Family	N/A	N/A	0	4	N/A	N/A	N/A	8.4%	8.4%
Small Intermediate Family	N/A	N/A	5	17	0	12	2 or fewer under 18	13.5%	10.7%
Large Intermediate Family	N/A	N/A	5	17	0	12	3 or more under 18	4.3%	3.8%
Mature Family	N/A	N/A	N/A	N/A	13	17	N/A	5.0%	4.8%
Family with Mature Children at Home	N/A	N/A	N/A	N/A	18	N/A	1 or more over 18 living at home	7.3%	5.4%

Source: Esri; American Community Survey PUMS; RCLCO

RENTAL RESIDENTIAL PRODUCT IN DOWNTOWN HIGHLIGHTS A COMPELLING OPPORTUNITY TO SEIZE ON COMPLEMENTARY MARKET TRENDS AND PRIORITIZE ADAPTIVE REUSE

- Although large-scale deliveries of multifamily product in Downtown Chattanooga are a relatively new phenomenon (see Page 26), clear trends are emerging Downtown, as River City continues to guide the conversation around land use and development. Adaptive reuse is one such trend, where owners are converting legacy office and hotel assets into residential product with unit programs weighted to smaller floorplans. River City identified both *The Maclellan* and *The Tomorrow Building* as part of a group of 22 properties primed for conversion and/or redevelopment in Downtown Chattanooga back in 2013, following months of community outreach and market research.
- Developers continue to deliver a higher standard of quality for multifamily rental product; as demonstrated by *Bluebird Row*, which includes an expansive package of amenities geared towards younger professionals. *Bluebird Row* also achieves top-of-market unit finishes, which justifies the property's record-setting price tag.

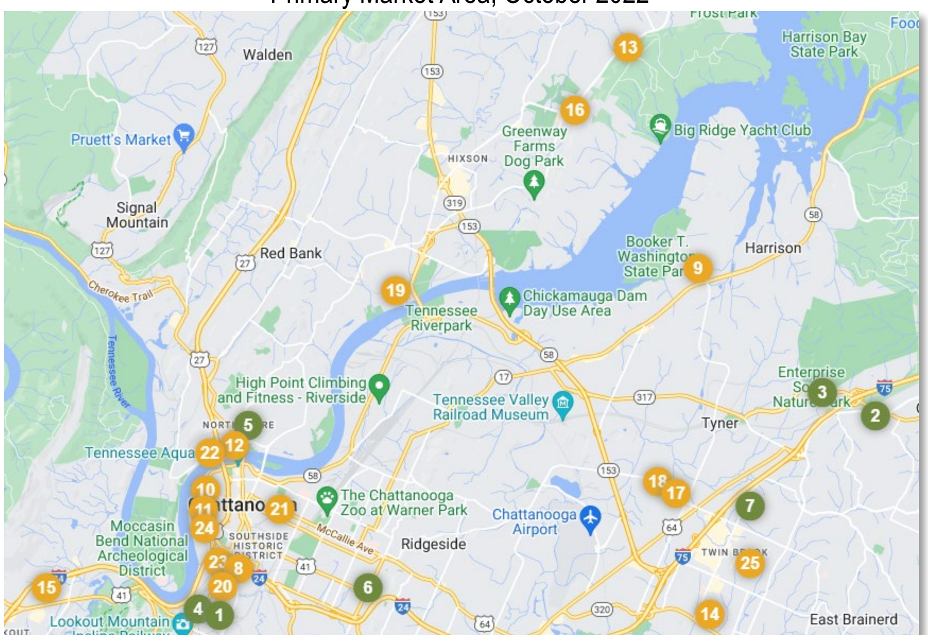
	THE TOMORROW BUILDING	THE MACLELLAN	BLUEBIRD ROW
Images	 	 	 
Year Completed	2016	2017	2019
Number of Units	39 Units (33 Studio, 6 1BR)	82 Units (16 Studio, 57 1BR, 9 2BR)	283 Units (19 Studio, 153 1BR, 96 2BR, 15 3BR)
Asking Rents vs. Submarket	\$3.15/SF | \$1,111/month City Center: \$1.78/SF | \$1,390/month	\$1.83/SF | \$1,528/month City Center: \$1.78/SF | \$1,390/month	\$1.91/SF | \$1,819/month Southside: \$1.55/SF | \$1,300/month
Property Notes	Unit program is highly unique and reflects history of property as a former hotel dating back to 1888. Features "innovation room" amenity to attract prospective entrepreneurs to Downtown.	Originally the Provident Building, an office property built in 1924. Provides smaller units than average for the submarket and project preserved some of building's historic features.	Sold to Hamilton Zanze in 2020 for record-setting price in Chattanooga multifamily market. Features unique recreation-focused amenity set with bouldering wall, bocce court, and fire pits.

Source: CoStar; RCLCO; Property Websites

THE ROBUST PIPELINE REFLECTS STRONG OPPORTUNITY FOR NEW MULTIFAMILY PRODUCT

- As of October 2022, just over 1,700 rental apartment units are under construction in the PMA, with another 4,600 units that are planned or proposed. This pipeline is quite robust, and it suggests that 900 units could deliver annually through 2030. While this represents significantly more development on an annual basis than the PMA has experienced in most recent years (see Page 27), it does not exceed RCLCO's forecasted annual demand for new product (see Page 30).
- Many of these developments are highly speculative and multi-phased. *The Bend*, for instance, proposes delivery of 1,357 multifamily units across three phases, although the precise timing of these deliveries is subject to change as year-to-year market conditions fluctuate and developers continue to seek public buy-in.

Rental Properties Under Construction and Planned/Proposed
Primary Market Area; October 2022



MAP KEY	PROJECT	DEVELOPER	EST. OPENING	TOTAL UNITS
	UNDER CONSTRUCTION			
1	Borough 33	JA Fielden	2023	310
2	Ardmore Heights	Ardmore Residential	2023	300
3	The Jewel at Summit Pointe	Adamson Developers	2023	256
4	3331 Saint Elmo Avenue	Southeast Venture	2023	180
5	Somer Station	Fidelity Trust Company	2023	27
6	Mill Town	Collier	2024	300
7	Populus Waterside	Novare Group	2024	344
				1,717
	PLANNED/PROPOSED/SPECULATIVE			
8	The Flats at Southside Gardens	3H Group Inc	2024	35
9	8699 N Hickory Valley Road	RM Investment LLC	2024	708
10	***THE BEND PHASE 1***	***Urban Story Ventures***	***Unknown***	***610***
11	***THE BEND PHASE 2***	***Urban Story Ventures***	***Unknown***	***198***
12	**430 MANUFACTURERS ROAD**	**Middle Street Partners**	**Unknown**	**271**
13	6814 Hixson Pike	Boehm Real Estate	Unknown	250
14	Fmr. East Brainerd Elem. School	Wolford Development Inc	Unknown	236
15	Rose Circle & Hemlock Circle	Collier	Unknown	225
16	6000 Hixson Pike	Pratt Home Builders	Unknown	180
17	6418 Shallowford Road	Private Developer	Unknown	116
18	6402 Shallowford Road	Private Developer	Unknown	96
19	Riverton Lupton	Riverton Development Group	Unknown	70
20	District at S. Broad Future Phases	3H Group Inc	Unknown	60
21	**BIG NINE BUILDING**	**Private Developer**	**Unknown**	**41**
22	702 Manufacturers Road	Beacon Acquisitions	Unknown	350
23	**SOUTH BROAD APARTMENTS**	**RFM Development Company**	**Unknown**	**245**
24	***THE BEND PHASE 3***	***Urban Story Ventures***	***Unknown***	***549***
25	Former Cigna Office	Empire Communities	Unknown	351
				4,591

Note: Properties in Downtown are bolded in the summary table for reference, and plans for The Bend are italicized to reflect uncertainty.

Source: CoStar; Axiometrics; RCLCO

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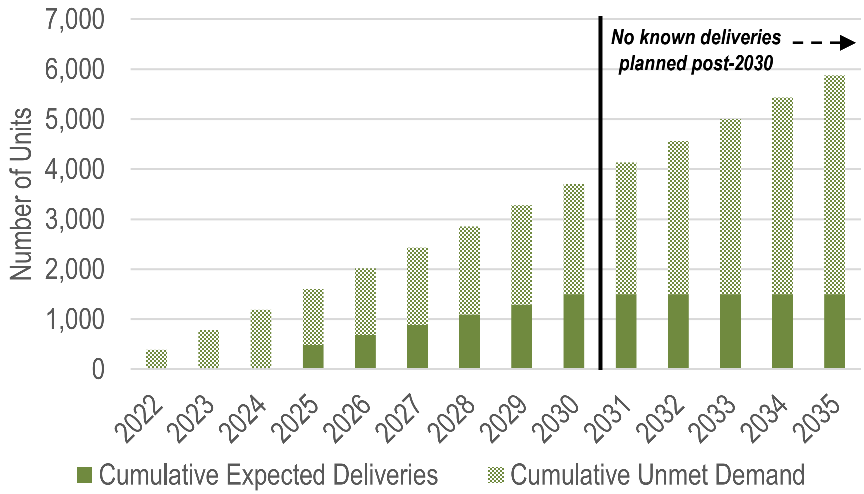
THE CURRENT DEVELOPMENT PIPELINE LEAVES SIGNIFICANT DEMAND UNMET, ESPECIALLY IN DOWNTOWN

- To compare the quantity of units in the pipeline to projected demand for new rental product, RCLCO estimated the delivery date for each property in the pipeline, assuming for the purposes of this analysis that after 2026 the remainder of pipeline projects will deliver at a uniform annual pace. Then, RCLCO determined the quantity of units in the pipeline located inside Downtown Chattanooga (see Page 7 for boundaries) to compare against forecasted demand. No projects currently under construction or planned for a 2023 or 2024 delivery are located Downtown.
- Assuming an 80% probability of delivery for planned/proposed projects, RCLCO anticipates that 1,498 units in total will deliver in Downtown Chattanooga by 2030, less than half of projected cumulative demand of 3,705 units, pointing to a compelling opportunity to deliver new rental product in addition to what is already in the pipeline. Unmet demand grows to 4,375 units by 2035, as RCLCO could not identify any projects planned to deliver after 2030.

Cumulative Expected Deliveries and Unmet Demand
Downtown Chattanooga; October 2022



Summary of Pipeline Units by Expected Completion Year
Primary Market Area and Downtown Chattanooga; October 2022

	TOTAL	2022	2023	2024	2025	2026	2027	2028	2029	2030
TOTAL UNITS										
Under Construction	1,717	-	1,073	644	-	-	-	-	-	-
Planned	4,591	-	-	743	610	648	648	648	648	648
PMA Total	**6,308**	**-**	**1,073**	**1,387**	**610**	**648**	**648**	**648**	**648**	**648**
Downtown Total	**1,873**	**-**	**-**	**-**	**610**	**253**	**253**	**253**	**253**	**253**
TOTAL UNITS WEIGHTED BY COMPETITIVENESS/PROBABILITY										
Under Construction	1,717	-	1,073	644	-	-	-	-	-	-
Planned	3,673	-	-	594	488	518	518	518	518	518
PMA Total	**5,390**	**-**	**1,073**	**1,238**	**488**	**518**	**518**	**518**	**518**	**518**
Downtown Total	**1,498**	**-**	**-**	**-**	**488**	**202**	**202**	**202**	**202**	**202**

Source: CoStar; Axiometrics; RCLCO

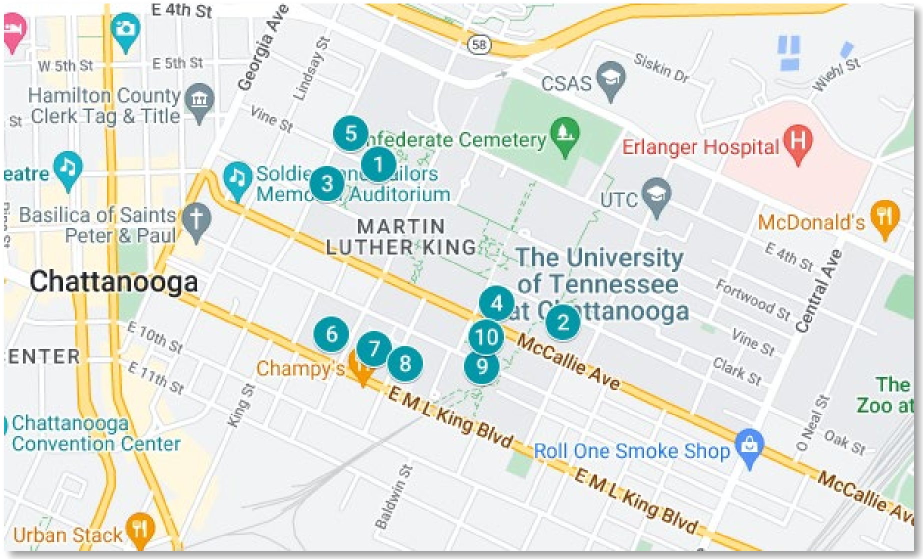
AN ESTIMATED 1,511 UTC STUDENTS CURRENTLY LIVE IN OFF-CAMPUS PRIVATE HOUSING, BUT ON-CAMPUS HOUSING IS EXPECTED TO ABSORB MOST DEMAND FOR ADDITIONAL STUDENT HOUSING BEDS IN THE NEAR TERM

- UTC houses most of its non-commuter students in on-campus housing. The University maintains roughly 3,500 beds in on-campus dormitories and off-campus university-owned apartment buildings. As enrollment has expanded, UTC has added beds to accommodate demand—*West Campus Housing* delivered 600 student beds to campus in 2018.
- Axiometrics projects average annual enrollment growth of 49 students per year through 2026, and on-campus housing additions of 38 beds per year on average over the same timeframe. While off-campus student housing is largely well-occupied, RCLCO does not expect sufficient enrollment growth to justify purpose-built student housing supply additions in the near term.

RCLCO 2022 ANNUAL OFF-CAMPUS HOUSING NEEDS ESTIMATE	
Total Freshmen Enrollment	2,700
Total Freshmen Beds	1,314
Est. % Undergraduates Commute	48.7%
Total Undergraduates Enrolled	8,878
Less: Est. Commuters	(4,321)
Less: Student Housing Beds	(3,557)
Est. Undergraduates in Off-Campus Housing	1,000
Plus: Graduate Students Enrolled	729
Less: Graduate Student Commuters (Est. 30%)	(219)
ESTIMATED ANNUAL UTC OFF-CAMPUS HOUSING NEED	**1,511 Beds**

Summary and Map of Existing University-Owned Student Housing
University of Tennessee at Chattanooga; October 2022

MAP KEY	COMMUNITY NAME	YEAR BUILT	YEAR RENOVATED	BEDS	CLASSIFICATION
1	Boling Apts	1975	N/A	411	All Undergraduates
2	Lockmiller Apts	1986	N/A	350	Freshmen
3	Johnson Obear Apts	1997	N/A	449	Upperclassmen
4	Stagmaier Hall	1967	2012	75	Freshmen
5	West Campus Housing	2018	N/A	599	Freshmen
6	Guerry Apts	2001	N/A	165	Freshmen
7	Decosimo Apts	2001	N/A	339	Upperclassmen
8	Stophel Apts	2002	N/A	582	Upperclassmen
9	Walker Apts	2004	N/A	220	Upperclassmen
10	UC Foundation Apts	2004	N/A	367	Upperclassmen
TOTAL/AVERAGE		**1996**	**2012**	**3,557**	



Source: CoStar; University of Tennessee at Chattanooga; Axiometrics; RCLCO

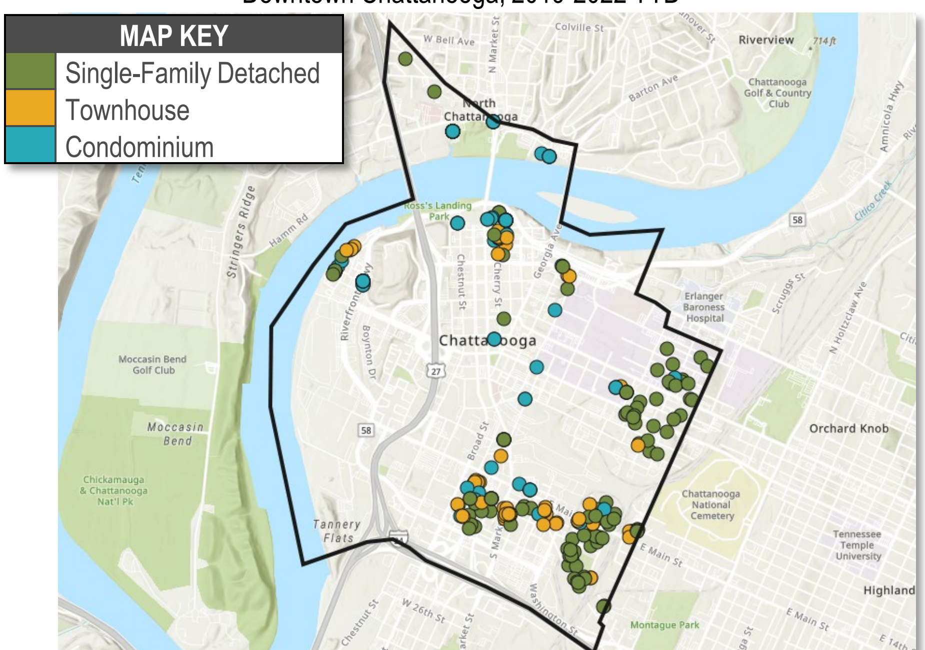
FOR-SALE MARKET ANALYSIS

THE COST OF FOR-SALE HOUSING HAS RISEN CONSIDERABLY IN DOWNTOWN CHATTANOOGA, WITH CONDOMINIUMS EVOLVING TO BECOME A DOMINANT PRODUCT TYPE

- While it does not contain a large portion of the region's for-sale housing stock, Downtown Chattanooga has become a high-demand, expensive submarket for homebuyers. Most of Downtown Chattanooga's recently sold for-sale housing is concentrated in Southside and surrounding UTC (see map below).
- Within Downtown Chattanooga, condominiums have overtaken single-family detached homes as the dominant product type, comprising roughly two-thirds of homes sold in 2021. Sale prices have climbed significantly; a record 19% of condominiums and 8% of single-family detached homes and townhomes sold for over $600,000 last year—an unachievable price point five years ago.

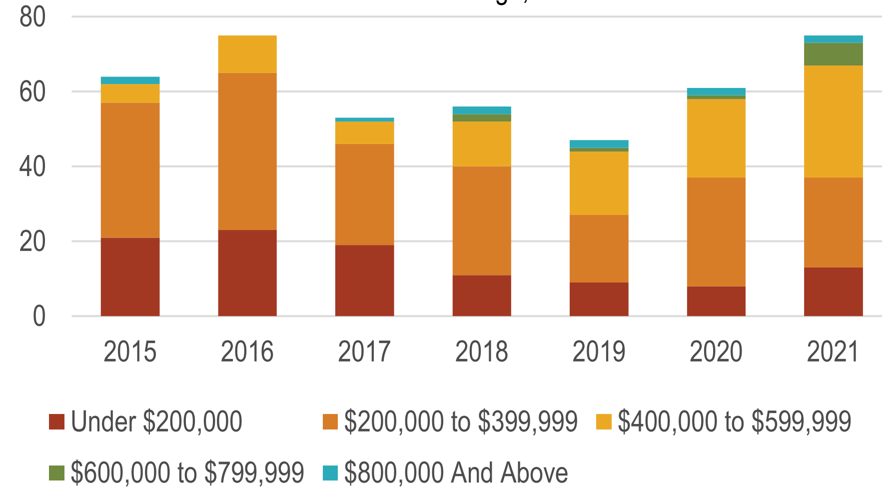
Map of All Home Sales by Product Type

Downtown Chattanooga; 2019-2022 YTD



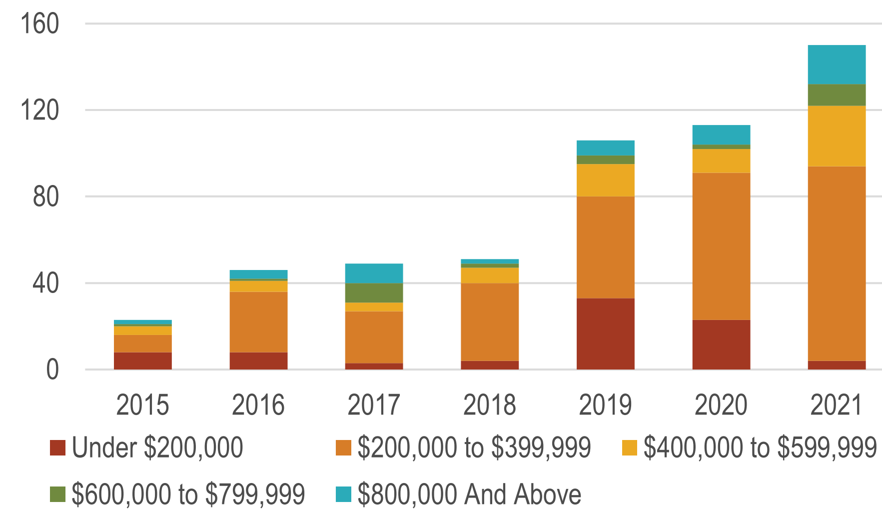
Townhome and Single-Family Detached Sales by Price

Downtown Chattanooga; 2015-2021



Condominium Sales by Price

Downtown Chattanooga; 2015-2021



Note: Sales by price charts use data from the following ZIP codes: 37402, 37403, and 37408.

Source: RealQuest; Redfin; RCLCO

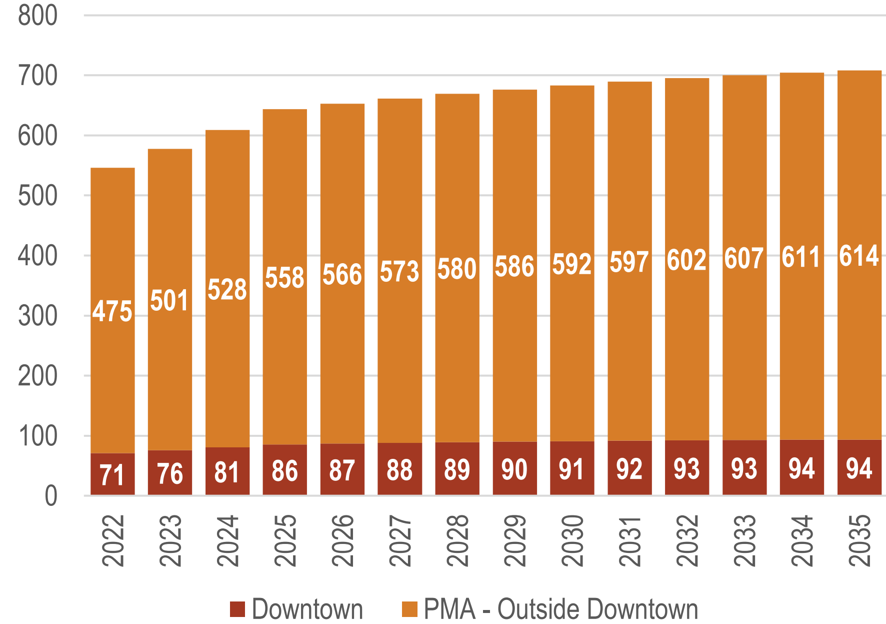
ANNUAL FOR-SALE DEMAND

RCLCO
REAL ESTATE CONSULTING

RCLCO EXPECTS ANNUAL DEMAND FOR NEW FOR-SALE PRODUCT TO RISE TO OVER 700 UNITS IN THE PMA, WITH DOWNTOWN CAPTURING DEMAND FOR MOSTLY SINGLE-FAMILY ATTACHED HOMES AND CONDOMINIUMS

- RCLCO forecasted for-sale demand with a similar approach to renter demand, considering the current product distribution that exists in the market today, propensities to choose new product among recent homebuyers, and how Downtown Chattanooga and the PMA have captured regional demand historically.
- RCLCO also segmented Downtown capture rates by for-sale product type. This segmentation is particularly important in the for-sale case, as single-family detached homes are much rarer Downtown than in the region as a whole. From 2022 to 2035, our forecast projects average annual demand of 658 new for-sale units in the PMA and 88 units specifically in Downtown Chattanooga. Downtown is expected to capture significantly less PMA for-sale demand than rental demand, since single-family detached homes account for the majority of demand at the regional level. This product type is ill-suited to Downtown given its low density, so Downtown Chattanooga's capture of demand for single-family detached homes is correspondingly small.

Projected Annual Demand for New For-Sale Units
Primary Market Area; 2022-2035



Downtown Capture of Projected Annual Demand for New For-Sale Units by Product Type
2022-2035

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
MSA TOTAL	**924**	**973**	**1,022**	**1,076**	**1,087**	**1,097**	**1,107**	**1,115**	**1,122**	**1,129**	**1,134**	**1,139**	**1,142**	**1,144**
PMA Capture of MSA	59.07%	59.33%	59.57%	59.81%	60.03%	60.25%	60.46%	60.66%	60.86%	61.08%	61.28%	61.49%	61.69%	61.88%
PMA TOTAL	**546**	**577**	**609**	**644**	**653**	**661**	**669**	**676**	**683**	**689**	**695**	**700**	**705**	**708**
Downtown Capture of PMA	13.07%	13.17%	13.24%	13.30%	13.34%	13.37%	13.37%	13.36%	13.34%	13.35%	13.34%	13.32%	13.29%	13.24%
DOWNTOWN TOTAL	**71**	**76**	**81**	**86**	**87**	**88**	**89**	**90**	**91**	**92**	**93**	**93**	**94**	**94**
Single Family Detached	8	8	9	9	9	8	8	8	7	7	7	7	6	6
Single Family Attached	27	29	31	33	33	33	33	34	34	34	34	34	33	33
Mutlifamily (5+ Units)	36	38	41	44	46	47	48	49	50	51	52	53	54	55

Source: Esri; American Community Survey PUMS; Redfin; RCLCO

HOMEBUYERS IN THE PRIMARY MARKET AREA ARE DISPROPORTIONATELY PROFESSIONALS WITHOUT CHILDREN, BUCKING REGIONAL SEGMENTATION TRENDS

- As in the case of rental demand, young professionals are the largest segment of prospective homebuyers in the PMA, representing 24% of demand for new for-sale homes in the PMA. Mature and middle aged professionals are also overrepresented in the for-sale demand pool in the PMA relative to the region, suggesting that these groups value more urban locations in and around Downtown Chattanooga.
- Families with children, on the other hand, are underrepresented in the PMA demand pool, as these households tend to flock to more suburban neighborhoods, prioritizing school quality and size of available homes. These segments account for just 37% of the demand pool in Urban Chattanooga, but 45% of the regional demand pool.

Household Segment Definitions and Composition of For-Sale Demand Pool
Primary Market Area; 2022

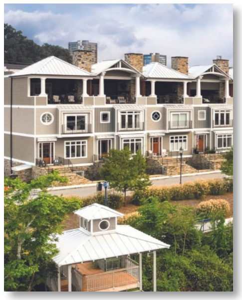
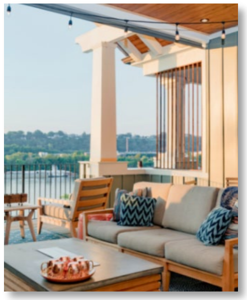
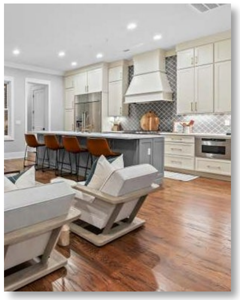
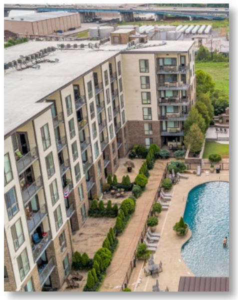
	AGE OF HOUSEHOLDER		AGE OF OLDEST CHILD		AGE OF YOUNGEST CHILD				
SEGMENT	MIN	MAX	MIN	MAX	MIN	MAX	# OF CHILDREN	% OF ACTIVE BUYERS IN MSA	% OF ACTIVE BUYERS IN SUBMARKET
Non-Family Segments									
Young Adult	15	24	N/A	N/A	N/A	N/A	0	2.7%	2.0%
Young Professional	25	34	N/A	N/A	N/A	N/A	0	14.7%	23.8%
Middle Aged Professional	35	44	N/A	N/A	N/A	N/A	0	4.8%	5.6%
Mature Professional	45	54	N/A	N/A	N/A	N/A	0	8.5%	10.5%
Empty Nester	55	64	N/A	N/A	N/A	N/A	0	12.3%	10.2%
Retiree	65	74	N/A	N/A	N/A	N/A	0	7.5%	6.0%
Senior	75	N/A	N/A	N/A	N/A	N/A	0	4.5%	5.0%
Family Segments									
Young Family	N/A	N/A	0	4	N/A	N/A	N/A	11.7%	10.5%
Small Intermediate Family	N/A	N/A	5	17	0	12	2 or fewer under 18	15.7%	13.3%
Large Intermediate Family	N/A	N/A	5	17	0	12	3 or more under 18	5.5%	4.4%
Mature Family	N/A	N/A	N/A	N/A	13	17	N/A	4.8%	3.0%
Family with Mature Children at Home	N/A	N/A	N/A	N/A	18	N/A	1 or more over 18 living at home	7.2%	5.8%

Source: Esri; American Community Survey PUMS; RCLCO

PRODUCT SEGMENTATION OPPORTUNITIES

GROWING POPULARITY OF TOWNHOMES AND CONDOMINIUMS HAS PUSHED THE CEILING ON ACHIEVABLE PRICING FOR FOR-SALE PRODUCT IN DOWNTOWN CHATTANOOGA

- Historically a nine-to-five office core, Downtown Chattanooga lacked a diverse stock of high-quality for-sale residential product until recently. Starting in Northshore and Cameron Harbor, and later moving closer in toward City Center, condominium and single-family attached product has proliferated rapidly, with propensity to choose this kind of residential product growing accordingly.
- Townhomes in Cameron Harbor and along Walnut Street have set record-high prices for single-family attached homes in Downtown Chattanooga, with many homes having sold before completion, demonstrating the strong market opportunity to deliver new for-sale product at scale.

	CAMERON HARBOR LUXURY TOWNHOMES	WALNUT HILL TOWNHOMES	ONE NORTH SHORE
Images	 	 	 
Year Completed	2020 (Phased)	2019 (Phased)	2008
Number of Units	9 Units	21 Units	203 Units
Average Sale Price (Redfin)	$1.5 million	$1.25 million	$335,000
Property Notes	Record sale prices for single-family attached product in Chattanooga. Direct access to boat dock and Tennessee Riverwalk.	First batch of townhomes started at $610,000. Most recent deliveries are three-story, all sold for over $1 million.	One of the first mid-rise condominium buildings delivered as part of mixed-use development in Chattanooga. Includes 25,000 square feet of retail on-site.

Source: Redfin; Community Websites; RCLCO

RCLCO REAL ESTATE CONSULTING

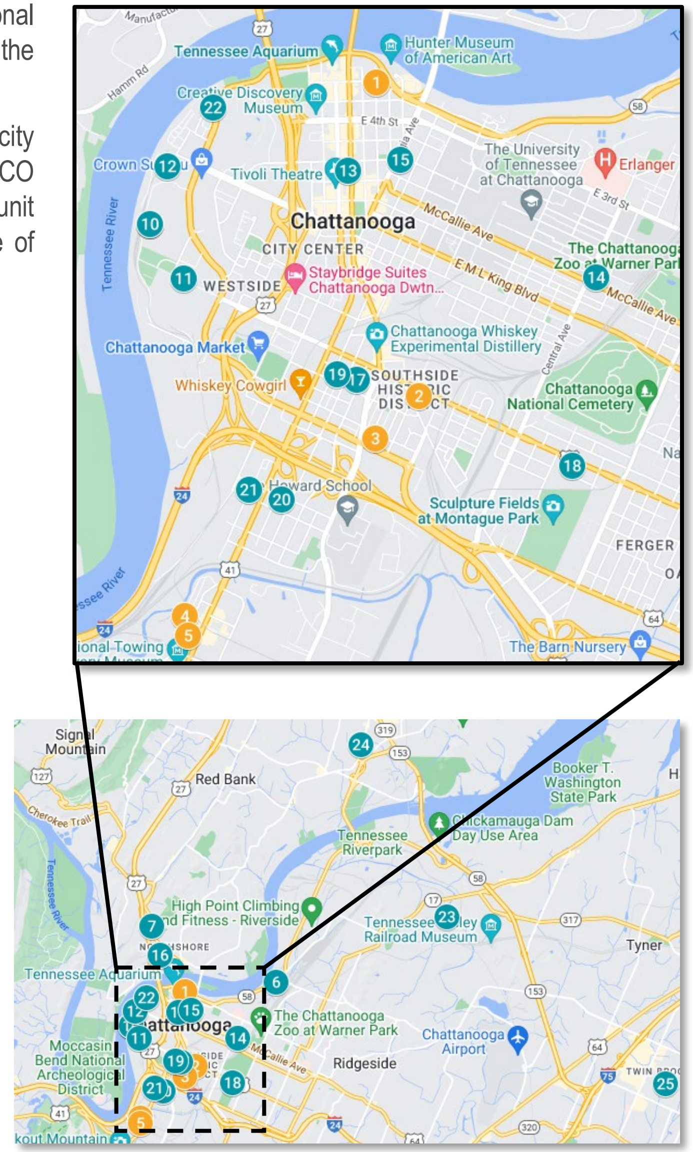
THE PIPELINE REFLECTS CHANGING PREFERENCES FOR PRODUCT AND LOCATION

- At this time, 1,450 for sale homes are in the pipeline in the PMA, and it is probable that there are some additional smaller-scale developments not captured by this analysis. This pipeline represents a massive expansion of the existing condominiums and townhome supply, demonstrating shifting preferences among homebuyers.
- Several of these projects, including *The Bend*, are highly speculative and multi-phased, relying on buy-in from city officials and the community, as well as other external factors such as permitting and government grants. RCLCO excluded several long-term projects—including *Riverton*—from our analysis, because they lacked concrete unit programs and published site plans. The projects included in this analysis represent RCLCO's best estimate of current properties that are more than likely to reach completion.

For-Sale Properties Under Construction and Planned/Proposed

Primary Market Area; October 2022

MAP KEY	PROJECT NAME	PRODUCT TYPE	STATUS	EST. DELIVERY	UNITS	DEVELOPER
1	Walnut Street Townhomes	Townhome	U/C	2022	11	Tower Construction
2	Southside Nine Townhomes	Townhome	U/C	2022	9	Connolly Development
3	Former Chatt City Suites	Condominium	U/C	2024	56	MH95
4	The Stockyards	Townhome	U/C	2024	42	Collier FIELD
5	Riverwalk Townhomes	Townhome	U/C	2024	23	Connolly Development
6	1497 Riverside Dr	Condominium	Planned	2024	45	River Street
7	899 Cherokee Blvd	Condominium	Planned	2024	25	Fletcher Bright Co
8	*The Bend Phase 1 – Condominiums*	*Condominium*	*Planned*	*Unknown*	*140*	*Urban Story Ventures*
9	*The Bend Phase 2 – Condominiums*	*Condominium*	*Planned*	*Unknown*	*99*	*Urban Story Ventures*
10	*The Bend Phase 2 – Townhomes*	*Townhome*	*Planned*	*Unknown*	*47*	*Urban Story Ventures*
11	*The Bend Phase 3 - Condominiums*	*Condominium*	*Planned*	*Unknown*	*81*	*Urban Story Ventures*
12	*The Bend Phase 3 – Townhomes*	*Townhome*	*Planned*	*Unknown*	*12*	*Urban Story Ventures*
13	Jazzy Building	Condominium	Planned	Unknown	24	Unknown
14	McCallie Townhomes	Townhome	Planned	Unknown	55	RP Homes
15	Vine Street Development	Condominium	Planned	Unknown	145	Empire Communities
16	Peerless Townhomes	Townhome	Planned	Unknown	99	Empire Communities
17	Cardon's Condos	Condominium	Planned	Unknown	17	Fletcher Bright Co
18	Raines Townhomes	Townhome	Planned	Unknown	20	Raines Brothers
19	Cowart Condos	Condominium	Planned	Unknown	46	Kevin Boehm
20	Southside Garden Townhomes	Townhome	Planned	Unknown	35	Hiren Desai/3H Group
21	503 W 26th St	Townhome	Planned	Unknown	15	Mark McCraw
22	Waterview	Townhome	Planned	Unknown	41	Hiren Desai/3H Group
23	River Park Farms	Single-Family Detached	Planned	Unknown	97	Private Developer
24	4527 Hixson Pike	Townhome	Planned	Unknown	36	Private Developer
25	Former Cigna Office	Single-Family Detached	Planned	Unknown	230	Empire Communities



Note: Plans for The Bend are italicized to reflect uncertainty.

Source: CoStar; Axiometrics; RCLCO

PIPELINE VS. FORECASTED DEMAND

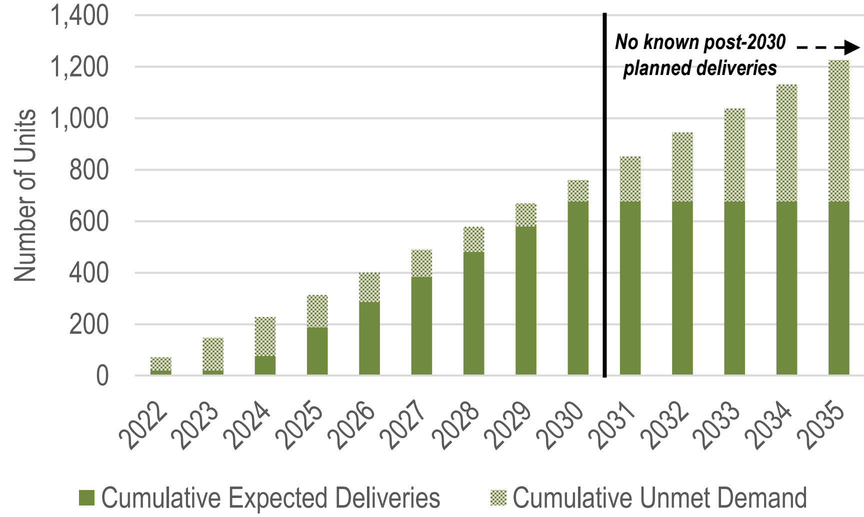
RCLCO REAL ESTATE CONSULTING

THE PRESENT-DAY PIPELINE WILL ABSORB MOST DEMAND FOR NEW FOR-SALE PRODUCT IN DOWNTOWN, BUT WITH SOME ROOM FOR SMALL-SCALE ADDITIONS

- Using the same methodology as RCLCO deployed for long-term rental demand, we estimate cumulative total demand for 1,226 for-sale units in Downtown Chattanooga by 2035, or 760 units by 2030.
- Assuming an 80% probability of delivery for planned/proposed projects, RCLCO projects that 677 units in total will deliver in Downtown Chattanooga by 2030, which would absorb 89% of forecasted cumulative demand. This highlights the impact that projects like *The Bend* may have on the Downtown for-sale market; as low inventory has suppressed Downtown Chattanooga's capture of regional demand in recent years, deliveries of this scale are relatively unprecedented, but RCLCO believes that more than enough demand will exist in the market to absorb this new supply. However, RCLCO cautions against encouraging large-scale additions beyond what is already planned in the near term in order to maintain a favorable balance of supply and demand in the for-sale market.

Cumulative Expected Deliveries and Unmet Demand

Downtown Chattanooga; October 2022



Summary of Pipeline Units by Expected Completion Year

Primary Market Area and Downtown Chattanooga; October 2022

	TOTAL	2022	2023	2024	2025	2026	2027	2028	2029	2030
TOTAL UNITS										
Under Construction	141	20	-	121	-	-	-	-	-	-
Planned	1,309	-	-	70	140	220	220	220	220	220
PMA Total	**1,450**	**20**	**-**	**191**	**140**	**220**	**220**	**220**	**220**	**220**
Downtown Total	**1,873**	**20**	**-**	**70**	**140**	**122**	**122**	**122**	**122**	**122**
TOTAL UNITS WEIGHTED BY COMPETITIVENESS/PROBABILITY										
Under Construction	141	20	-	121	-	-	-	-	-	-
Planned	1,047	-	-	56	112	176	176	176	176	176
PMA Total	**1,188**	**20**	**0**	**177**	**112**	**176**	**176**	**176**	**176**	**176**
Downtown Total	**677**	**20**	**-**	**56**	**112**	**98**	**98**	**98**	**98**	**98**

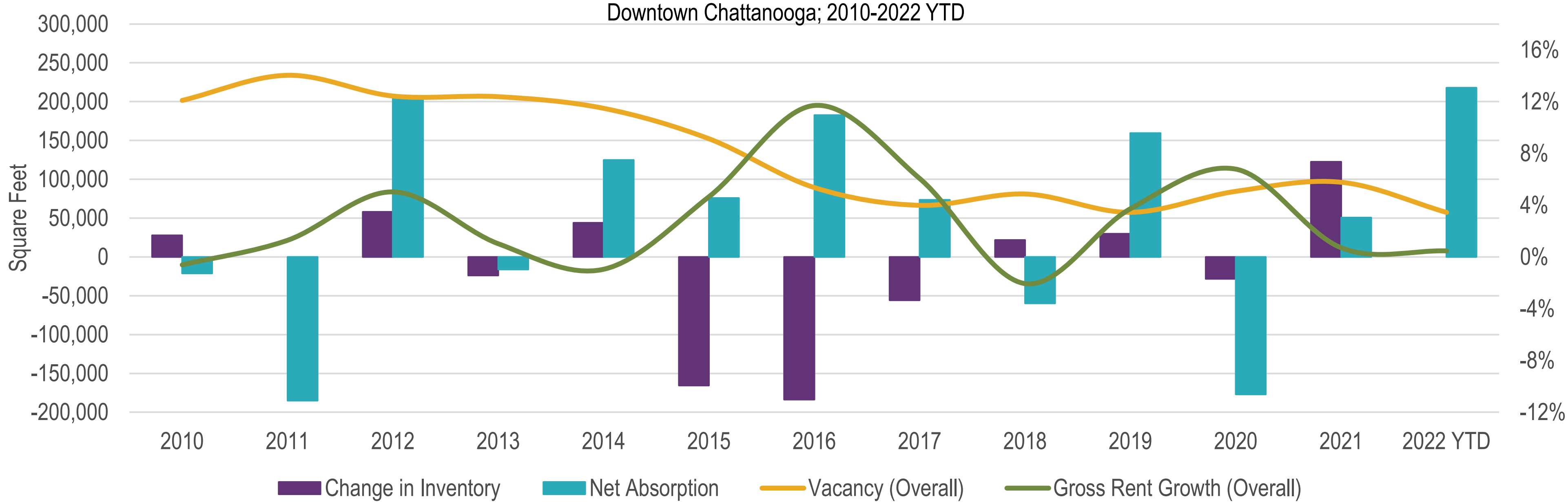
Source: CoStar; Axiometrics; RCLCO

OFFICE MARKET ANALYSIS

DOWNTOWN CHATTANOOGA HAS SEEN LIMITED NEW OFFICE DELIVERIES, AS WELL AS SOME OFFICE-TO-RESIDENTIAL CONVERSION, LEADING TO LOW VACANCY RATES, BUT LIMITED NEW SUPPLY HAS CAPPED RENT GROWTH

- While historical net absorption has been somewhat inconsistent, between 2010 and 2019, the Downtown Chattanooga office market absorbed 50,000 square feet each year on average, leading to consistently decreasing vacancy rates from an all-time high of 14% in 2011 to 3.4% in 2019.
  - These decreasing vacancy rates were hastened by two years where nearly 350,000 square feet of inventory were taken off the market, coinciding with the conversions of *The Tomorrow Building* and *The Maclellan* to residential. This timing also aligned with the adoption of the "Gig City" initiative in 2015, driving employment growth as well as positive office absorption. This confluence of events also lead to record rent growth of 11.7% in 2016.
  - In total, Downtown lost nearly 250,000 square feet of office, but absorbed 540,000 square feet in that time period, and causing the lowest vacancy rates in a decade. This indicated the Downtown market was poised for additional office growth.
- In 2020, when the COVID-19 pandemic brought workers out of the office across the country, Downtown Chattanooga experienced about 175,000 square feet of negative absorption, likely due to tenants re-evaluating their office needs in light of the fundamental shift in worker preferences.
  - However, this negative absorption was recouped by 2022, with 50,000 square feet absorbed in 2021 and 220,000 square feet absorbed in 2022 to date.

Completions, Absorption, Vacancy, and Rent Growth
Downtown Chattanooga; 2010-2022 YTD



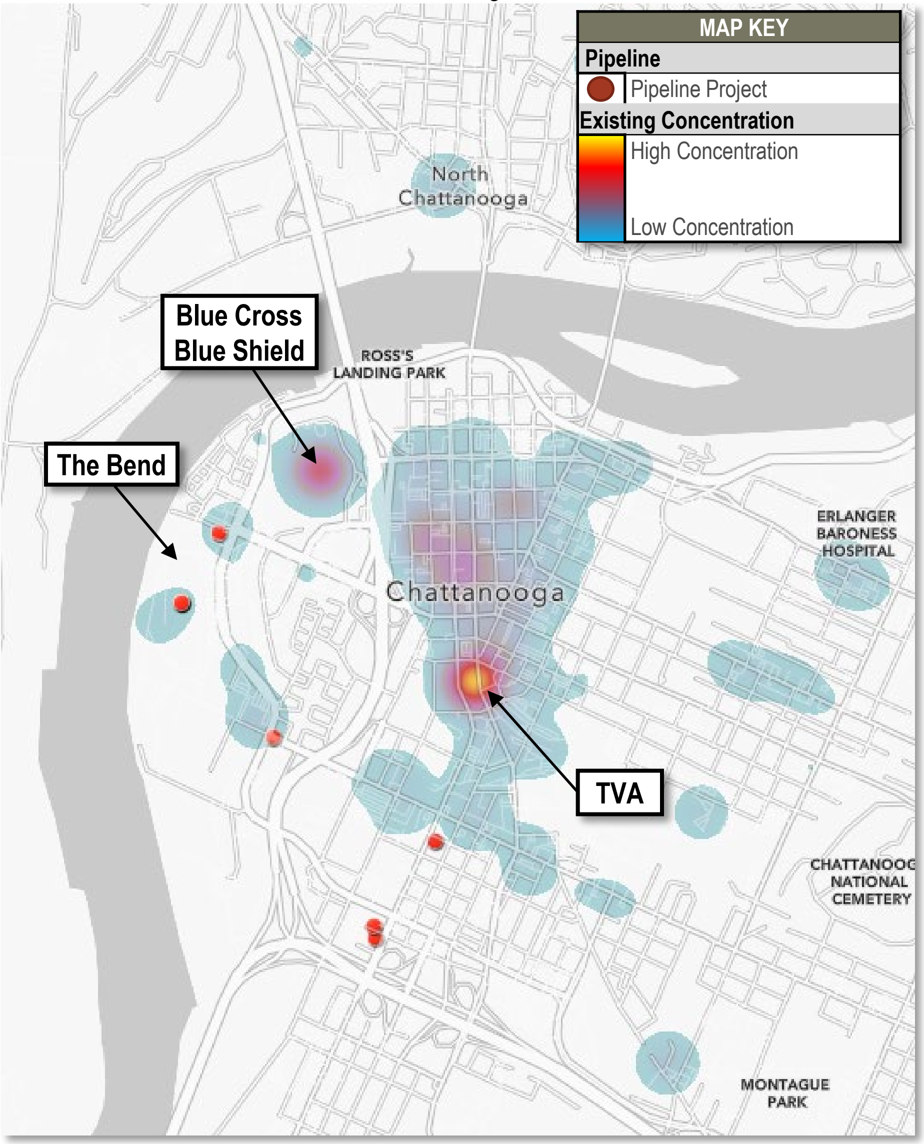
Note: 2021 year-to-date data is through October 2021.

Source: CoStar; RCLCO

IN DOWNTOWN CHATTANOOGA, OFFICE DEVELOPMENT IS PRIMARILY LOCATED IN CITY CENTER, BUT FUTURE DEVELOPMENT IS EXPANDING THE OFFICE CORE SOUTH AND WEST

- The primary office node in Downtown Chattanooga is anchored by the Tennessee Valley Authority (TVA), which currently owns over 1.5 million square feet in City Center, plus Blue Cross/Blue Shield, which occupies nearly one million square feet on Cameron Hill. The next largest tenant is Unum, which occupies two buildings in City Center for a total of about 700,000 square feet.
- The rest of the existing office core is spread north from TVA, towards the Riverfront, but highly concentrated in the City Center neighborhood of Downtown, but the remaining office stock is primarily in smaller (250,000 square feet and smaller) properties. Further, aside from a few large tenants (TVA, Blue Cross/Blue Shield, and Unum), the market consists generally of smaller tenants that lease less than 50,000 square feet.
- Pipeline projects are generally concentrated in neighborhoods outside of the historic office core, namely *The Bend*, as well as a few smaller projects between 30,000 and 60,000 square feet in Southside, suggesting increasingly strong preferences among office developers to locate office close to where residents live (or, in the case of *The Bend*, where residents are expected to live in the near future if current plans are fully realized).

Heat Map of Existing Office and Pipeline
Downtown Chattanooga; October 2022

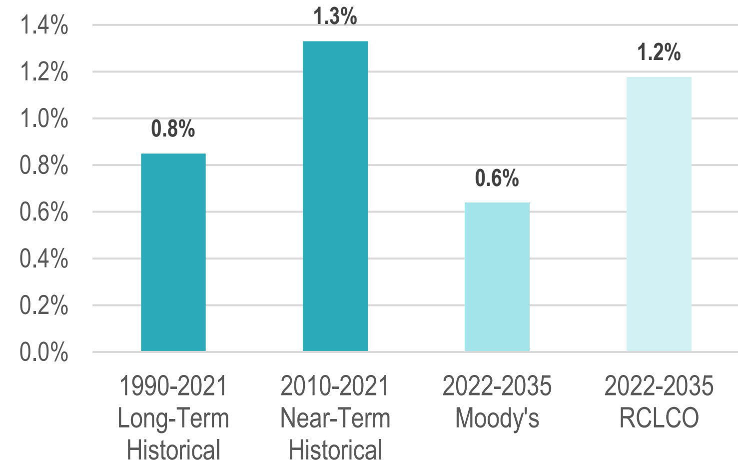


Source: CoStar; Esri

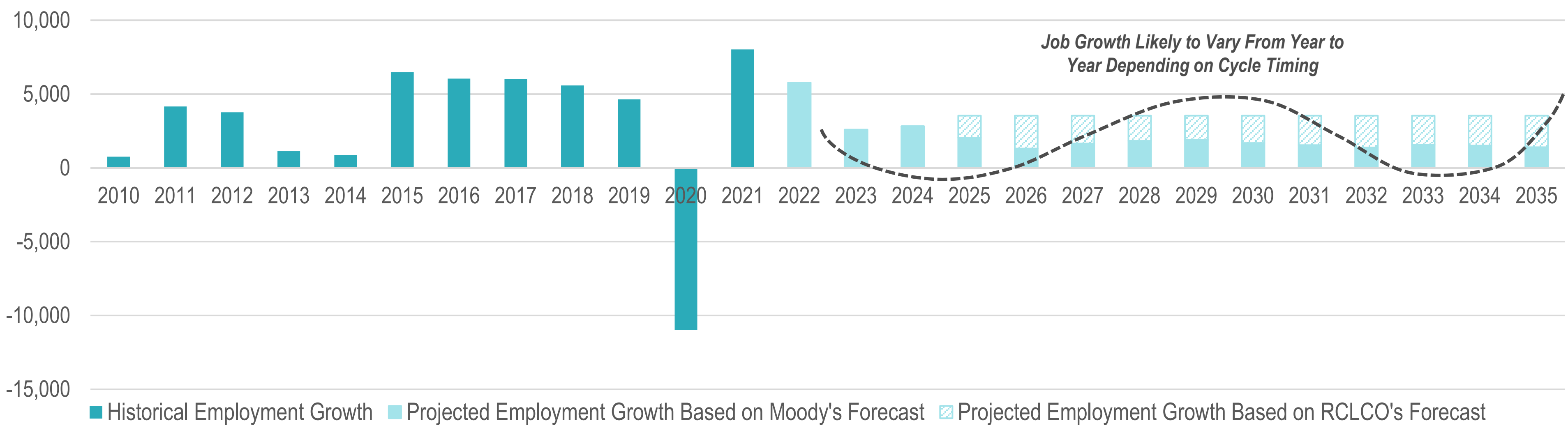
DESPITE JOB LOSS IN THE COVID-19 PANDEMIC, CHATTANOOGA IS ANTICIPATED TO CONTINUE ON ITS POSITIVE JOB GROWTH TRAJECTORY

- In order to forecast job growth in the Chattanooga MSA, RCLCO analyzed growth projections from Moody's Analytics. Currently, post-pandemic projections from Moody's Analytics include growth rates that are lower than even long-term historical averages, despite strong recovery in 2021. While average gross annual job growth had been decreasing between 2015 and 2019, the low growth projected by Moody's does not adequately reflect Chattanooga's demonstrated ability to add jobs.
- For this reason, RCLCO developed its own job growth forecast, which uses the same projections as the Moody's Analytics forecast through 2024, and then assumes the Chattanooga MSA will experience average growth generally in line with what has happened since 2010. This captures the strong growth that had occurred as a result of "Gig City" since 2015, which will likely continue to contribute to growth going forward, as opposed to the lower historic rate of 0.8% growth between 1990 and 2021. This RCLCO forecast balances out to average annual job growth of 1.2% from 2022 to 2035, which RCLCO expects is a reasonable assumption, though there will be fluctuations based on the current cycle.

Employment Growth by Data Source
Chattanooga, TN-GA MSA; 1990-2035



Historical and Projected Employment Growth
Chattanooga, TN-GA MSA; 2010-2035



Source: Moody's Analytics; RCLCO

OUTLOOK FOR OFFICE DEMAND

RCLCO
REAL ESTATE CONSULTING

THE COVID-19 PANDEMIC HAS ACCELERATED TRENDS TOWARD TELEWORKING, POTENTIALLY ALTERING THE AMOUNT OF OFFICE SPACE NEEDED PER JOB MOVING FORWARD

- To “sensitivity test” the impact of the COVID-19 pandemic on long-term office patterns, RCLCO developed three scenarios to consider when projecting future office demand in the market and specifically in Downtown Chattanooga. These scenarios include the following:
  - **Base Case**: In this scenario, office users return to their previous behavior following the COVID-19 pandemic, with no changes to the amount of space companies require.
  - **Hybrid Work Model**: In this scenario, an increased number of office-using employees adopt “hybrid work models” in which they split their time between working from home and working in the office. This behavior allows companies to accept smaller office footprints as a result.
  - **Additional Work from Home**: In this scenario, the same share of employees adopt a hybrid work model, but an additional share of employees decide to permanently work from home as well, meaning that fewer employees will require office space, and employers would be able to further downsize.
- Assuming Downtown Chattanooga continues to capture approximately 36% of demand for office space in Hamilton County, or approximately 32% of space in the Chattanooga MSA, these scenarios indicate demand for between 1.0 and 1.3 million square feet of new office space Downtown through 2035.

Summary of Office Demand Trajectories

Chattanooga, TN-GA MSA; 2022-2035

	SCENARIO 1: BASE CASE		SCENARIO 2: HYBRID WORK MODEL		SCENARIO 3: ADD’L WORK FROM HOME	
Description	Office users return to their previous behavior following the COVID-19 pandemic		Growing number of office employees use “hybrid work models” in which they split their time between home and the office		Same as Scenario 2, but an additional share of employees decide to permanently work from home	
Avg. Annual Employment Growth	=	1.2% / Year to 2035	=	1.2% / Year to 2035	=	1.2% / Year to 2035
% of Employees Using Office	=	21.7% of Employees	=	21.7% of Employees	↓	20.0% of Employees
SF per Office-Using Employee	=	212 SF / Employee	↓	174 SF / Employee	↓	174 SF / Employee
New Office Space Required in Chattanooga MSA Through 2035	**2.8 Million SF**		**2.3 Million SF**		**2.1 Million SF**	
Hamilton County Capture	**91%**		**91%**		**91%**	
New Office Space Required in Hamilton County Through 2035	**2.5 Million SF**		**2.1 Million SF**		**1.9 Million SF**	
Downtown Chattanooga Capture	**36%**		**36%**		**36%**	
New Office Space Required in Downtown Chattanooga Through 2035	**1.3 Million SF**		**1.1 Million SF**		**1.0 Million SF**	

Source: Moody’s Analytics; CoStar; RCLCO

RCLCO PROJECTS DEMAND FOR 1.34 MILLION SQUARE FEET OF OFFICE DOWNTOWN BY THE END OF 2035, WITH THIS TOTAL INCLUDING 882,000 SQUARE FEET FROM CORPORATE TENANTS AND 459,000 SQUARE FEET FROM CREATIVE TENANTS

- This forecast includes demand from three sources: 1.) growth within the MSA, 2.) turnover of tenants from within Downtown, and 3.) turnover of tenants from other parts of the MSA into Downtown. The average of these three forecasts translates to cumulative demand for up 1.34 million square feet of office development Downtown. In the other two scenarios, RCLCO projects approximately 1.1 million square feet of cumulative demand under the "Hybrid Work Model" scenario, and 1.04 million square feet with the "Additional Work-from-Home" scenario. Despite the scenario, creative office will remain at approximately 400,000-450,000 square feet, given Chattanooga's prevalence of small firms focused in transportation and technology.

Base Case

21.6 Million SF
Of Existing Office Space in Hamilton County, TN

2.5 Million SF
Demand in Hamilton County generated by growth through 2035

85,000 SF
Demand in Downtown Chattanooga generated by other MSA tenants through 2035

912,000 SF
Demand in Downtown Chattanooga generated by growth through 2035

+

344,000 SF
Demand in Downtown Chattanooga generated by other urban tenants in turnover through 2035

=

1.34 Million SF of Potential Demand Downtown
Between now and 2035, including 882,000 SF from corporate tenants and 459,0000 SF from creative tenants

Hybrid Work Model

21.6 Million SF
Of Existing Office Space in Hamilton County, TN

2.1 Million SF
Demand in Hamilton generated by growth through 2035

69,000 SF
Demand in Downtown Chattanooga generated by other MSA tenants through 2035

750,000 SF
Demand in Downtown Chattanooga generated by growth through 2035

+

282,000 SF
Demand in Downtown Chattanooga generated by other urban tenants in turnover through 2035

=

1.10 Million SF of Potential Demand Downtown
Between now and 2035, including 671,000 SF from corporate tenants and 429,000 SF from creative tenants

Additional Work-From-Home

21.6 Million SF
Of Existing Office Space in Hamilton County, TN

1.9 Million SF
Demand in Downtown Chattanooga generated by growth through 2035

69,000 SF
Demand in Downtown Chattanooga generated by other MSA tenants through 2035

686,000 SF
Demand in Downtown Chattanooga generated by growth through 2035

+

281,000 SF
Demand in Downtown Chattanooga generated by other urban tenants in turnover through 2035

=

1.04 Million SF of Potential Demand Downtown
Between now and 2035, including 597,000 SF from corporate tenants and 439,000 SF from creative tenants

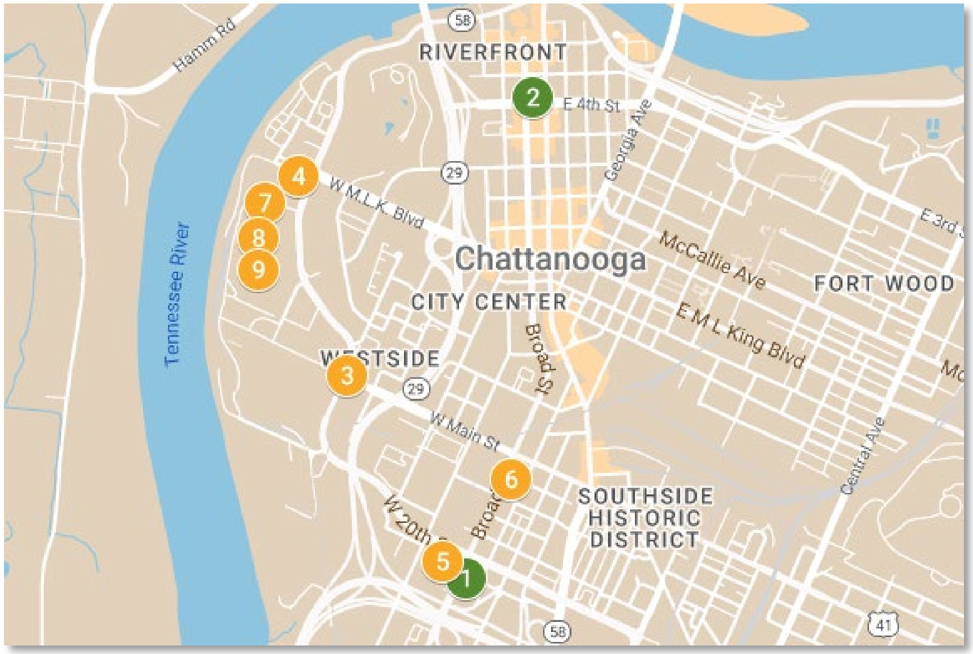
Source: Moody's Analytics; CoStar; U.S. Census County Business Patterns; RCLCO

RCLCO REAL ESTATE CONSULTING

THE OFFICE PIPELINE IS VERY ROBUST, SLIGHTLY EXCEEDING FORECASTED DEMAND, GIVEN THE SCALE OF PLANNED DELIVERIES AT THE BEND

- As of October 2022, there was only one building under construction in Downtown Chattanooga in Southside, which is a small-scale building of 35,000 square feet. The remaining seven buildings in the pipeline are all in the planning stages, many with unknown delivery dates. In all, this pipeline is approximately 1.44 million square feet, a little more than the 1.3 million forecasted in RCLCO's base case office demand scenario. *The Bend* constitutes the majority of this pipeline at 1.3 million square feet. While this is currently planned, it is highly speculative and market conditions may necessitate adjustments to planned deliveries in later phases.
- Additionally, there is 100,000 SF building—*The Pointe Center*—planned for outside of Downtown that may compete with Downtown properties. Including this property would bring the pipeline up to 1.5 million square feet.
- As this pipeline comes to fruition, it is likely that there will be tenants moving out of older office space, despite being well-located in City Center. While there will be some backfill of older space by tenants who appreciate the location but look for a lower-cost alternative, there will be some buildings that will suffer from this flight-to-quality, which should be identified for future residential conversions.
  - In conversations with River City, some potential properties would include TVA's headquarters, as well as the UBS and Tallan Buildings.
  - RCLCO further identified older properties that have large anchor tenants, such as the Republic Centre, anchored by Baker Donaldson, as well as the First Tennessee Building, anchored by First Horizon.

Map of Office Development Pipeline, October 2022;
Downtown Chattanooga



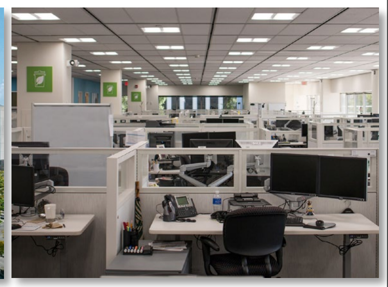
MAP KEY	NAME	CATEGORY	RBA	STATUS	ANTICIPATED COMPLETION
1	2101 Broad St	Professional Services	34,150	Under Construction	2024
2	John Ross Building (Stream Logistics)	Trade, Transportation, and Utilities	60,000	Under Construction	2023
3	*The Bend Phase 1*	*Professional Services*	*285,654*	*Planned*	*Unknown*
4	*The Bend Phase 1 - Medical*	*Medical*	*79,177*	*Planned*	*Unknown*
5	411 W 20th St	Professional Services	60,000	Planned	Unknown
6	Conversant Office	Technology	Unknown	Planned	Unknown
7	*The Bend Phase 2*	*Professional Services*	*538,868*	*Planned*	*Unknown*
8	*The Bend Phase 3*	*Professional Services*	*313,860*	*Planned*	*Unknown*
9	*The Bend Phase 3 – Medical*	*Medical*	*125,837*	*Planned*	*Unknown*
	TOTAL		**1.5 M**		

Note: Plans for The Bend are italicized to reflect uncertainty.

Source: CoStar; ArcGIS; Property Websites; RCLCO

DOWNTOWN CHATTANOOGA IS POISED TO SUPPORT MULTIPLE CONCEPTS OF CORPORATE AND CREATIVE OFFICE PRODUCT THROUGH 2035

- Given Chattanooga's unique office market, which has a strong prevalence of smaller, startup firms focused in the technology and transportation industries, as well as Downtown's expanding office core, creative office will remain a strong share of new demand through 2035. One such example of new creative office is *1208 King Street*, which was converted to office in 2019 and is currently anchored by healthcare technology firm Symplr.
- For traditional office, one multi-tenant building that has outperformed submarket rents is Unum's second building at 555 Walnut Street. The property has captured many large and small tenants in recent years as Unum has downsized.

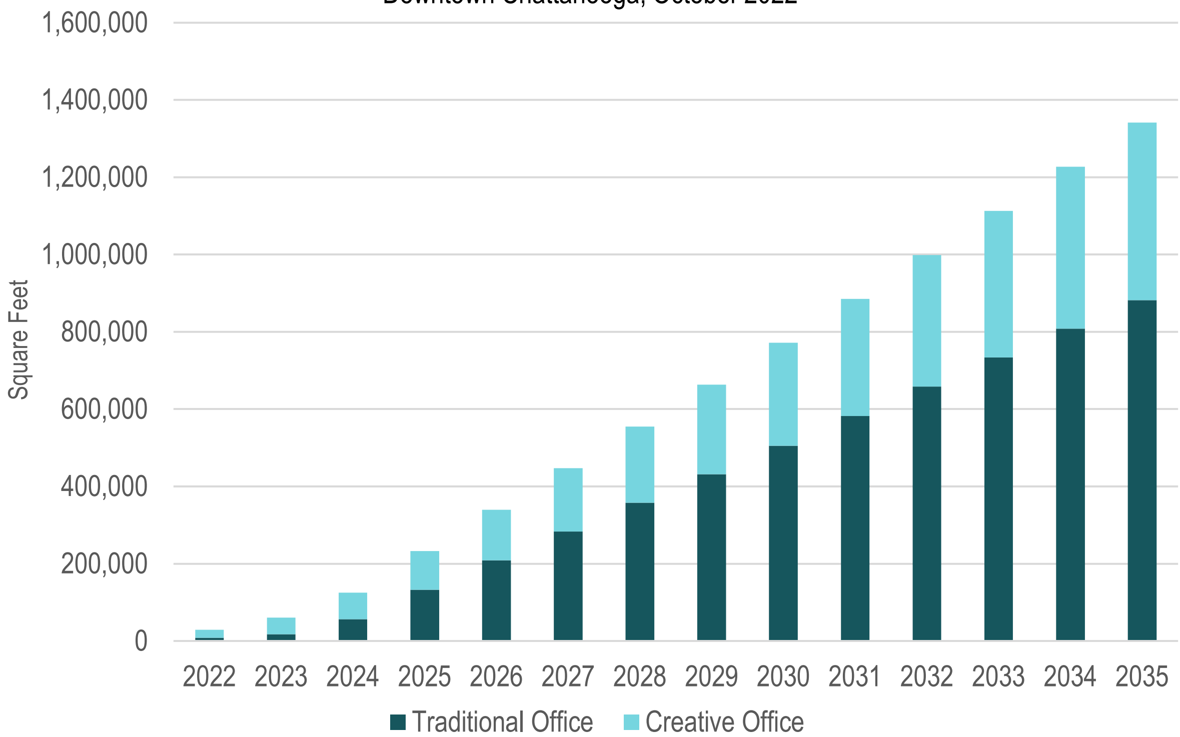
	TRADITIONAL OFFICE	CREATIVE OFFICE
Example	  555 Walnut Street	  1208 King Street
Developer/Owner	Unum	Urban Story Ventures
Office SF	224,314	77,000 SF
Year Built	1981	1984/2019
Description	Unum's second building in Chattanooga, this traditional office is also leased by several tenants in the professional services space. The building is regarded as one of the higher performing assets in Downtown Chattanooga.	A newer redeveloped building, 1208 King Street is home to more creative firms, with interiors that emphasize the historic, industrial nature of the building. 1208 King Street also has ground floor retailers such as Goodfellas Pizzeria and Wanderlinger Brewing Company.
Anchor Tenants	Unum (91K SF), insurance company, Elliott Davis (20K SF), accounting, tax and consulting firm	TractManager (28K SF), acquired by Symplr, healthcare data company
Asking Rents vs. CoStar Submarket	$22.50/SF Full Service $21.32/SF in CBD	$25.00/SF Full Service $21.53/SF in East Chattanooga

Source: CoStar; RCLCO

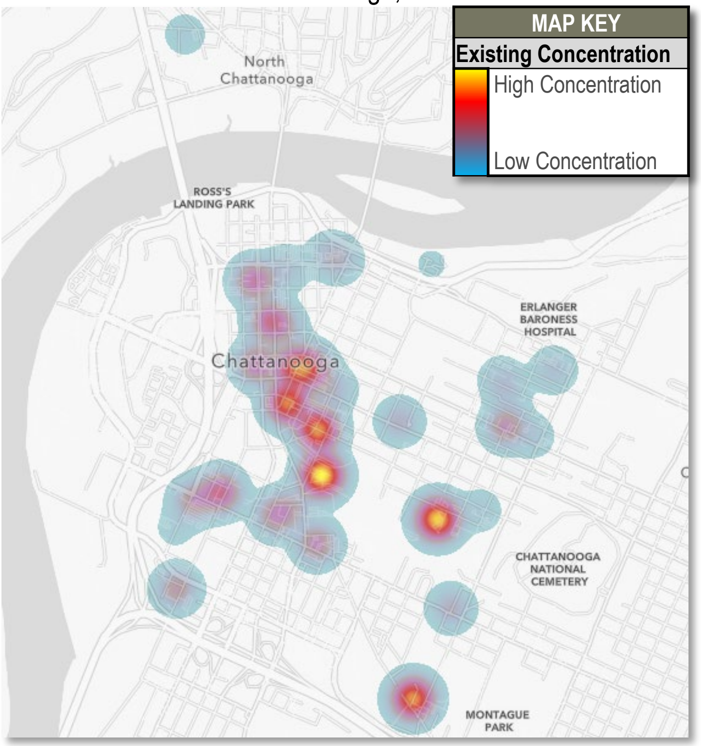
RELATIVE TO TRADITIONAL OFFICE, CREATIVE OFFICE IS LIKELY TO EXPERIENCE SOME TAILWINDS IN THE COMING YEARS, INCREASING ITS PROJECTED SHARE OF CUMULATIVE OFFICE DEMAND IN DOWNTOWN CHATTANOOGA THROUGH 2035

- In order to estimate capture of total office demand by creative tenants between 2022 and 2035, RCLCO applied a factor based on company size and industry to classify firms by whether they tend to rent creative office space or traditional office space.
- Given the number of small and tech-oriented companies, while only 5% of the current office stock in the Chattanooga MSA is currently designated as creative office, RCLCO projects that the current share in Downtown is approximately 10%. Current creative/loft office is clustered between City Center and Southside, with some located in MLK/UTC close to the University of Tennessee at Chattanooga.
- By 2035, RCLCO believes creative office could account for up to 35% of projected demand, though most of the office space in the pipeline would be considered "traditional" office. This suggests a potential opportunity to convert smaller, older buildings that may currently be vacant or underutilized into smaller-scale creative office.

Cumulative Office Demand by Type (Base Case)
Downtown Chattanooga; October 2022



Heat Map of Creative Office
Downtown Chattanooga; October 2022



Source: CoStar; RCLCO

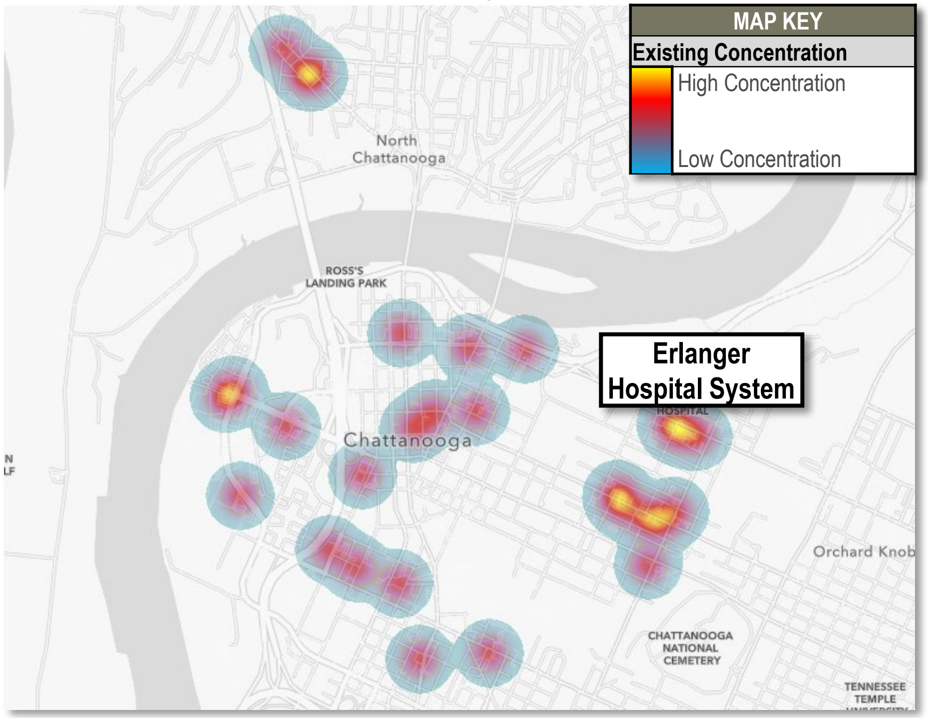
OPPORTUNITY FOR MEDICAL OFFICE

RCLCO REAL ESTATE CONSULTING

DOWNTOWN'S MEDICAL OFFICE MARKET IS GENERALLY WELL SUPPLIED, WITH ADDITIONAL DEMAND TO STEM FROM POPULATION GROWTH

- In order to estimate the market depth for medical office in Downtown, RCLCO evaluated the amount of existing medical office, and compared this to the number of beds at the hospital located Downtown—Erlanger Baroness and Children's Hospital at Erlanger—to determine, if any, unmet demand for medical office.
- Currently the Downtown medical office market is 12% vacant, with a few of those vacant properties being functionally unusable, as rent growth has been positive, and net absorption has been generally positive. Existing medical office is concentrated near the hospital, but the new product has been delivered near Cameron Harbor.
  - Overall, Downtown is currently supporting 752 square feet per hospital bed.
- In the pipeline, there is 205,000 square feet of medical office planned at *The Bend*, which would drive up the total medical office per square foot to 981 if USV is able to follow through on these plans. At this time, the Erlanger Hospital System does not have plans to expand Downtown, which would be a major demand driver for medical office, but an overall increase in population would also spur additional demand.
- Overall, medical office is likely not a use that ought to be prioritized as Downtown expands unless there is a major investment in expanding the hospital system.

Summary of Medical Office Concentration
Downtown Chattanooga; October 2022



Summary of Medical Office per Hospital Bed
Downtown Chattanooga; October 2022

DOWNTOWN HOSPITALS	BEDS & SF
Erlanger Baroness Hospital	778
Children's Hospital at Erlanger	118
TOTAL BEDS	**896**
Total Existing Medical Office SF	674,000
Medical Office SF Per Hospital Bed	*752*
Total Medical Pipeline (*The Bend*)	205,000
Total Medical Office SF Per Hospital Bed	*981*

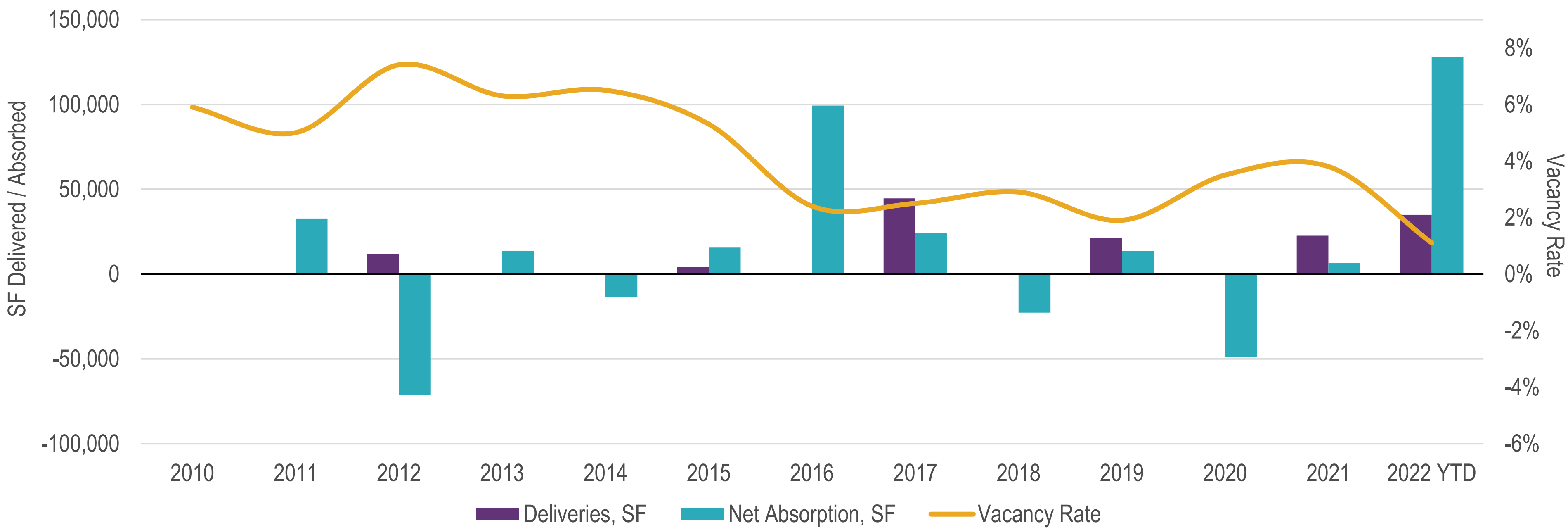
Source: CoStar; Erlanger Health System; RCLCO

RETAIL MARKET ANALYSIS

DOWNTOWN CHATTANOOGA'S RETAIL MARKET IS WELL-BALANCED, BUT THE MIX OF STORE TYPES COULD BE BETTER CALIBRATED TO HELP DOWNTOWN BECOME A TRUE LIVE-WORK-PLAY ENVIRONMENT

- Currently, the retail market in Downtown has experienced net positive absorption, with 177,000 square feet absorbed since 2010, compared to only 140,000 square feet delivered in that same time period. This has caused vacancy rates to dip below two percent, which would imply that there is room for additional deliveries Downtown.
- In 2020, due to the COVID-19 pandemic, the retail market did experience net negative absorption of 50,000 square feet, but vacancy remained below five percent, a positive indicator for the overall health of the retail market. The retail market has since rebounded, particularly in 2022 when the market absorbed 128,000 square feet.
- Overall, there is room for new deliveries in the market as new households grow the spending base, but the mix of what is currently in the market needs to shift away from a visitor- and employee-focused mix to one that is balanced between visitors, employees, and residents' needs. To arrive at estimates of forward-looking demand by retail subtype (see Page 58), RCLCO generated a detailed estimate of total competitive retail supply of 1.25M SF, which is likely less than reported by CoStar and other sources, which typically include ground floor or storefront space that may not be well-suited to modern retailers but could attract a commercial user.

Retail Completions, Net Absorption, and Vacancy
Downtown Chattanooga; 2009-2022 YTD



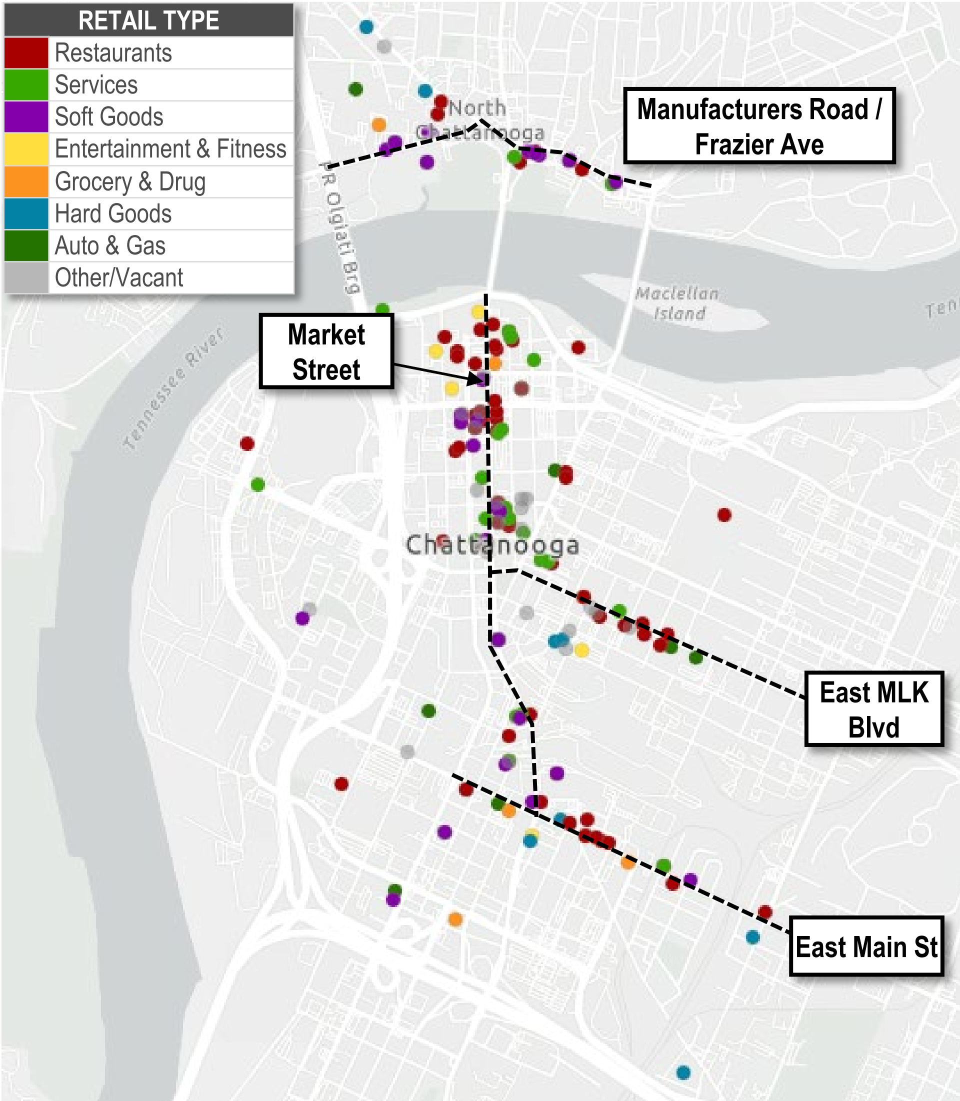
Note: Above graph displays both direct and sublet net absorption, vacancies, etc. Data includes properties larger than 5,000 SF. 2022 year-to-date data is through October 2022.

Source: CoStar; RCLCO

DOWNTOWN CHATTANOOGA RETAIL CLUSTERS ALONG FOUR MAJOR CORRIDORS, WITH ROOM FOR FURTHER EXPANSION INTO RESIDENTIAL AREAS

- Currently, retail in Downtown Chattanooga is concentrated in City Center and Riverfront, two neighborhoods anchored by the employment and visitor base. In addition to Market Street, the main thoroughfare in these two neighborhoods, there are a few retail arteries that expand from there. These primary neighborhood corridors include East Martin Luther King Boulevard in MLK/UTC, Manufacturers Road/Frazier Avenue in Northshore, and East Main Street in Southside.
- Generally, the main retail corridors are anchored with restaurants, except in Northshore, where a significant concentration of soft goods retailers exist today, and where *2 Northshore* is anchored by Whole Foods Market, one of the few grocery stores in Downtown.
- Outside of these corridors, there is limited retail, particularly in residential neighborhoods like Westside, Cameron Harbor, and south of East Main Street. Outside of Northshore, there is very little daily needs retail to accommodate residents at all.
- This is both a challenge for current residents of other neighborhoods in Downtown, who do not benefit from walkable access to these retail uses, but also an opportunity to attract visitors and prospective residents alike by focusing future expansions to the Downtown retail supply on neighborhood-serving retail.
- Developments in the pipeline reflect that the market has recognized this shortfall, but River City could intervene with programs to encourage neighborhood-serving retail and thus enhance residential-retail synergy.

Map of Existing Retail by Type
Downtown Chattanooga; October 2022



Source: CoStar; RCLCO

MAJOR RETAIL NODES

RCLCO
REAL ESTATE CONSULTING

RETAIL NODES IN DOWNTOWN CHATTANOOGA HAVE TENDED TO ATTRACT PARTICULAR TYPES OF TENANTS, WITH THREE NODES IN PARTICULAR SHOWCASING THIS TREND TOWARDS SPECIALIZATION OF RETAIL DESTINATIONS

- RCLCO identified three retail centers in Downtown Chattanooga as compelling examples of placemaking-driven retail experiences.
  - **2 Northshore:** *2 Northshore* is a regional, grocery-anchored center with complementary soft goods and services. Currently, this is the only major grocery store Downtown.
  - **Chattanooga Choo Choo**: This is a converted train station that has entertainment venues, bars, and restaurants that brings traffic through public events.
  - **Warehouse Row:** *Warehouse Row* is a new mixed-use development in City Center, featuring major national soft goods retailers with office above. This attracts Downtown residents and employees alike looking for dining and shopping.

	REGIONAL CENTER	ENTERTAINMENT CENTERED	SOFT GOODS CENTERED
Example	 2 Northshore	 Chattanooga Choo Choo	 Warehouse Row
Neighborhood	Northshore	Southside	City Center
Description	Large auto-oriented retail center, with two-level retail buildings surrounded by surface parking. Immediate neighborhood is also car-centric, with some office and residential as well as additional retail.	Historic train station converted into a retail and hotel mixed-use development that includes multiple entertainment venues including a comedy club, restaurants, and music venues. Walkable experience.	Major retail and office mixed-use development with street front retail as well as parking access. Retail includes a mixture of restaurants and bars as well as strong number of national soft goods retailers.
Anchor Tenants	Whole Foods Market, plus some boutiques, services, and fitness users	The Comedy Catch, Escape Experience, Backstage Bar, plus other restaurants and boutiques	Anthropologie, J.Crew, lululemon, Tupelo Honey Cafe, and other local retailers
General Shopper	Residents coming from in and out of Downtown for groceries, services, and other goods	Residents and Visitors staying in Downtown looking for entertainment.	Residents and Visitors in Downtown looking for restaurants and shopping.

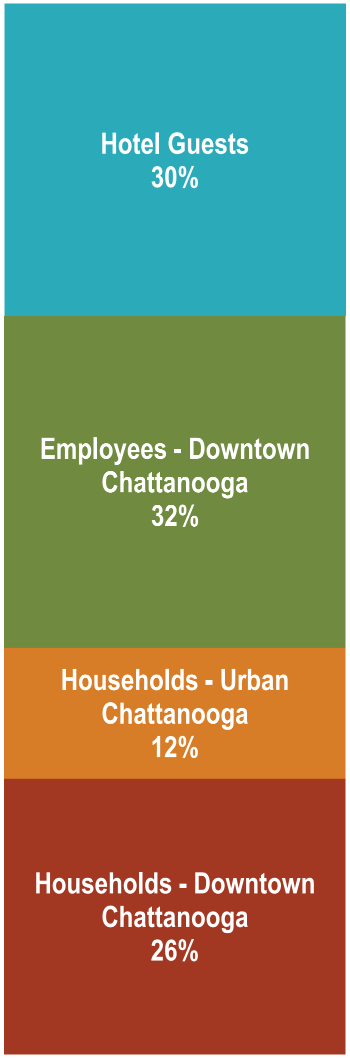
Source: CoStar; Property Websites; RCLCO

RETAIL SPENDING SOURCES

FUTURE RETAIL DEMAND IS EXPECTED TO STEM PRIMARILY FROM DOWNTOWN RESIDENTS AND EMPLOYEES

- To determine the projected retail demand, RCLCO evaluated projected growth in the number of residents, office-using employees, and hotel visitors Downtown, as well as those who live or work outside of Downtown who may come Downtown to shop or eat. Of these groups, Downtown employees are expected to drive the majority of demand, followed by hotel guests, Downtown households, and households in the greater Urban Chattanooga area.
  - Within these groups, Downtown residents drive the majority of demand for grocery & drug (65%), auto & gas (52%), and hard goods (32%). Downtown employees drive the majority of demand for restaurants (37%), hard goods (48%), and soft goods (67%).
  - Finally, visitors drive the majority of demand for entertainment and fitness (60%).
  - Services are more evenly distributed between the different contributing groups.
- It is the categories where residents drive the majority of demand that need to be accommodated in future retail growth.

Distribution of Total Retail Demand
Downtown Chattanooga; 2040

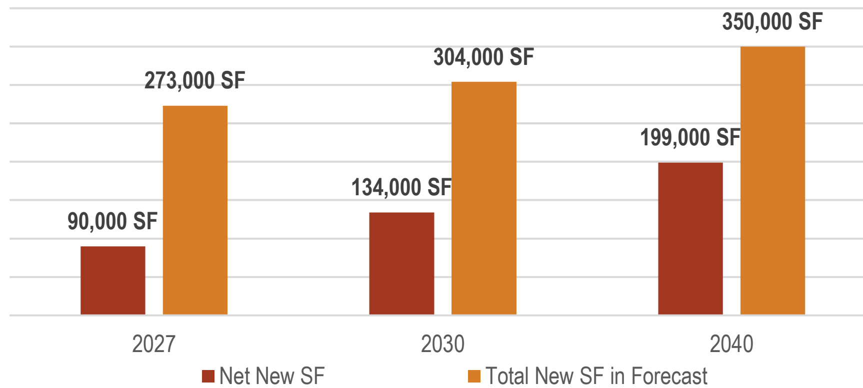


Source: Esri; Consumer Expenditure Survey; ICSC; RCLCO

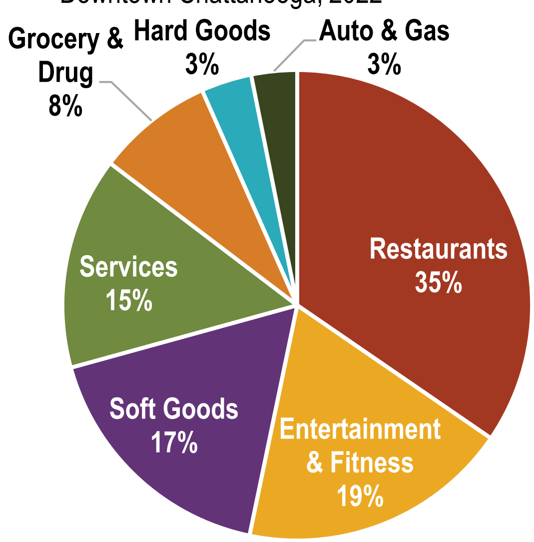
DOWNTOWN HAS STRONG RESTAURANT AND SOFT GOODS REPRESENTATION, BUT IS LACKING IN GROCERY & DRUG

- RCLCO's demand analysis suggests that retail stock should have the largest square footage share of restaurants (38%), followed by grocery & drug (19%), entertainment & fitness (15%), and services (9%). While the current market is similarly majority restaurants (35%) and entertainment & fitness (19%), the existing retail market is over-weighted in soft goods (17%) and services (15%), but underserved in grocery & drug (8%) and hard goods (3%).
- Given this mismatch in what the mix should be versus what currently exists, of the 200,000 net new square feet RCLCO projects through 2040, there will be certain store types that will need to experienced outsized growth going forward, which is further discussed on Page 59. The graph on the right shows both net new SF, which accounts for the overall supply additions and subtractions indicated by the demand forecast, and total new SF, which focused only on categories that support additional square feet without reducing the scale of uses that may be oversupplied today.

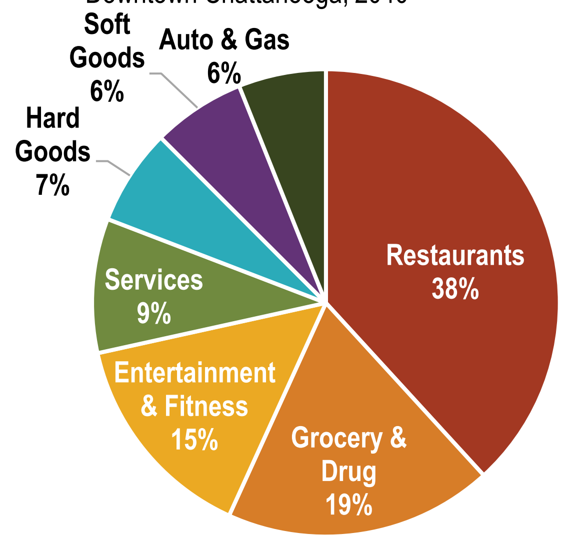
Forecasted Total and Net New Retail Demand (SF)
Downtown Chattanooga; 2022-2040



Existing Retail Supply (SF) by Store Type
Downtown Chattanooga; 2022



Future Retail Demand (SF) by Store Type
Downtown Chattanooga; 2040



Source: Esri; Consumer Expenditure Survey; ICSC; RCLCO

RETAIL DEMAND COMPARISON

RCLCO REAL ESTATE CONSULTING

GIVEN THE CURRENT MARKET IS WELL-BALANCED, NEW DEVELOPMENT SHOULD FOCUS ON KEY CATEGORIES

- RCLCO evaluated the current share of retail versus the project share of retail discussed on Page 58, and given the current retail market is generally in balance given the low vacancy rate, RCLCO assumes that while the market is well-occupied, it may be misallocated in terms of how best the space should be used. Therefore, assuming that in each category where the current share is larger than the projected share, those will remain relatively stable going forward, and instead the other categories would experience an outsized growth. All in, that would yield total new retail of 350,000 square feet by 2040.

STORE TYPE	CURRENT SHARE	PROJECTED SHARE	TOTAL ADDITIONAL SF BY 2040	OPPORTUNITY
Grocery & Drug	8%	19%	~150,000 SF	**STRONG** ***This is the strongest market segment demanded Downtown, and the market is already making progress towards that end with Food City under construction.***
Restaurants	35%	38%	~115,000 SF	**MODERATE / STRONG** ***Restaurants appeal to all of the market segments Downtown, and will continue to be a large share of the retail stock Downtown.***
Hard Goods	3%	7%	~45,000 SF	**MODERATE** ***Hard goods is generally underserved right now Downtown and would benefit residents and employees.***
Soft Goods	17%	6%	0 SF	**WEAK** ***While the current market is balanced RCLCO would not recommend a focus on additional soft goods.***
Entertainment & Fitness	19%	14%	0 SF	**MODERATE / WEAK** ***This segment is already well-served Downtown. There may be turnover in tenants/locations as preferred concepts change over time, but new tenants are likely to attract spending from existing ones.***
Services	15%	9%	0 SF	**MODERATE / WEAK** ***This segment is already well-served Downtown. Additional service users (banks, salons, etc) may open in new locations as population expands in locations less well-served today, but spending is likely to spread across new locations rather than increase.***
Auto & Gas	3%	6%	~40,000 SF	**MODERATE / WEAK** ***While Downtown could sustain additional retail for this type, it is typically an inefficient use of available land in downtown areas and not likely to grow.***
TOTAL	**100%**	**100%**	**~350,000 SF**	

Source: Esri; Consumer Expenditure Survey; ICSC; RCLCO

RCLCO REAL ESTATE CONSULTING

THE PIPELINE GENERALLY ADDRESSES GAPS IN THE RETAIL MARKET, BUT TENANCY WILL BE KEY COMPONENT OF NEW RETAIL DEVELOPMENT

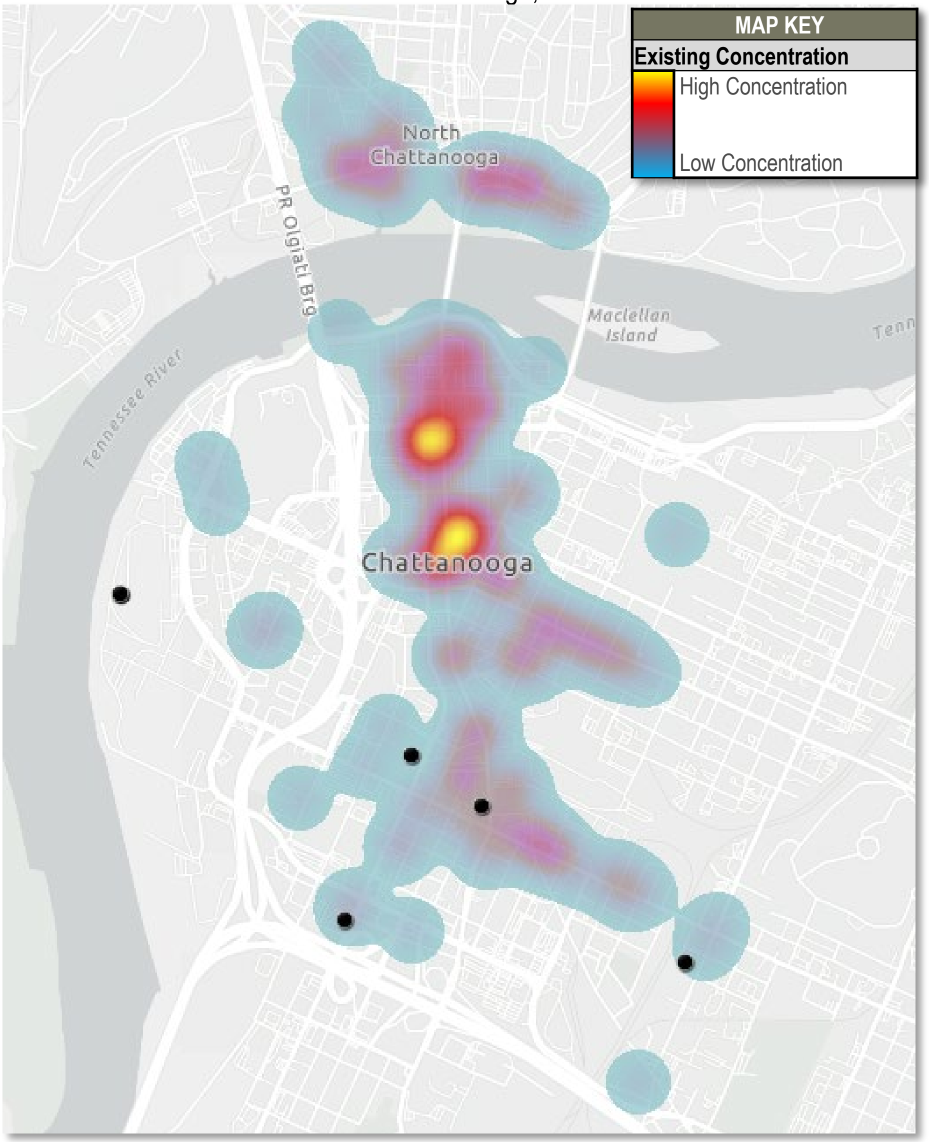
- There is currently 60,000 square feet of retail under construction Downtown, primarily in Southside. There is also more than 1.3 million square feet planned, though not all of it has anticipated delivery dates, but does extend the retail core outside of City Center and Riverfront.
- In addition, there is a Food City under construction in Southside, which will be a huge step forward in terms of addressing the grocery need Downtown.
- Considering the significant household growth expected Downtown, there is likely demand for this new retail planned through 2035, particularly given the current slight undersupply of the existing retail market. However, given the forecasted change in spending, as well as the variance between the existing market retail type mix and the forecasted retail type mix, tenancy will be very important to ensure that there is not oversupply of restaurants and other tourism-focused retail and the new retail focuses on all sources of demand.
- Outside of Downtown, there is 67,600 square feet of retail under construction in Hixson, and 174,000 square feet planned in the PMA outside of Downtown. The largest development planned outside of Downtown is *1115 Morris Lane* in East Brainerd. While this retail is substantial, it will likely not draw much traffic away from Downtown given its peripheral location.

PROPERTY NAME	STATUS	ESTIMATED DELIVERY	SIZE (SF)
2101 Broad St	Under Construction	2024	34,150
Food City	Under Construction	2024	53,000
The Bend Phase 1	*Planned*	*Unknown*	*578,490*
The Bend Phase 2	*Planned*	*Unknown*	*209,280*
The Bend Phase 3	*Planned*	*Unknown*	*519,246*
1445 Market Street	Planned	Unknown	60,000
1607 Central Ave	Planned	Unknown	27,408
TOTAL PLANNED/PROPOSED			**1,447,742**

Note: Plans for The Bend are italicized to reflect uncertainty.

Map of Retail Density and Pipeline Projects

Downtown Chattanooga; October 2022



Source: Esri; RCLCO

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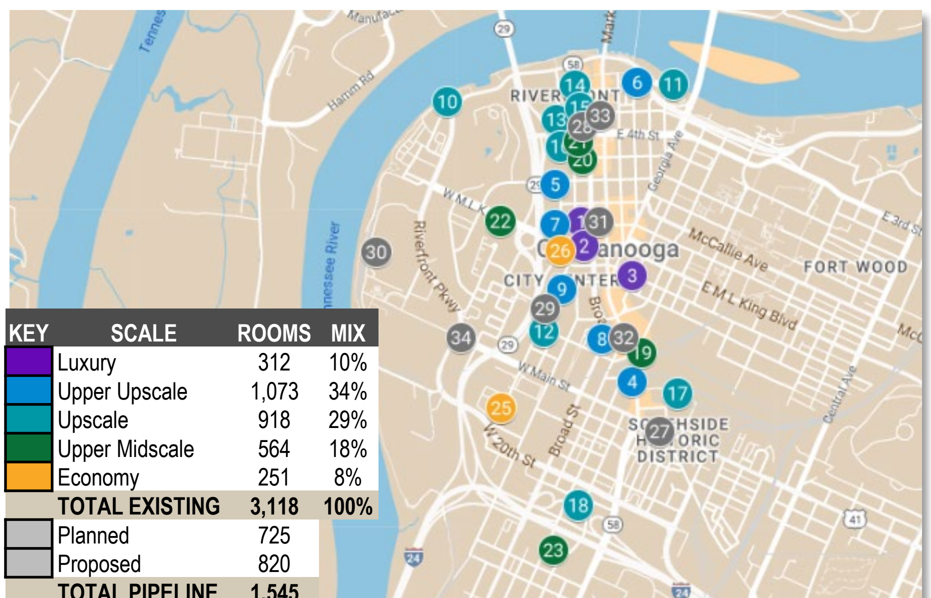
HOTEL MARKET ANALYSIS

HOTEL MARKET OVERVIEW

MOST HOTELS IN DOWNTOWN CHATTANOOGA ARE ALONG CHESTNUT STREET IN RIVERFRONT AND CITY CENTER, WITH PIPELINE EXTENDING SOUTH AND WEST

- RCLCO evaluated the performance of the following hotels, to evaluate the overall health of the hotel market. This represents every hotel RCLCO could identify in Downtown Chattanooga.
- Most of the hotels in the competitive set are Upper Upscale, representing 34% of rooms, and most were built after 2017, and thus account for the majority of new hotels built in the market.
- Pipeline projects are trending to extend the hotel core south and west of City Center, showing the increased appeal of these neighborhoods to visitors and the market's acknowledgement of the hotel demand in Downtown Chattanooga. Just under half of pipeline projects have firm plans in motion, mitigating risk of substantial imminent oversupply, although caution is still warranted.



KEY	SCALE	ROOMS	MIX
	Luxury	312	10%
	Upper Upscale	1,073	34%
	Upscale	918	29%
	Upper Midscale	564	18%
	Economy	251	8%
	TOTAL EXISTING	**3,118**	**100%**
	Planned	725	
	Proposed	820	
	TOTAL PIPELINE	**1,545**	

Hotel Competitive Set
Downtown Chattanooga; October 2022

KEY	HOTEL	CLASS	OPENED	ROOMS
	EXISTING			
1	Bode Chattanooga	Luxury	2019	54
2	The Read House Hotel Historic Inn & Suites	Luxury	1987	242
3	The Dwell Hotel	Luxury	1909	16
4	Tribute Portfolio Kinley Chattanooga	Upper Upscale	2021	64
5	Hotel Indigo Chattanooga - Downtown	Upper Upscale	2020	117
6	Autograph Collection The Edwin Hotel	Upper Upscale	2018	90
7	Westin Chattanooga	Upper Upscale	2017	260
8	The Chattanoogan Hotel, Curio Collection by Hilton	Upper Upscale	2001	199
9	Chattanooga Marriott Downtown	Upper Upscale	1985	343
10	SpringHill Suites Downtown/Cameron Harbor	Upscale	2012	116
11	Bluff View Inn Bed & Breakfast	Upscale	2004	16
12	Staybridge Suites Chattanooga Dwtn - Conv Ctnr	Upscale	2003	124
13	Hilton Garden Inn Chattanooga Downtown	Upscale	2001	94
14	Courtyard Chattanooga Downtown	Upscale	2001	128
15	Residence Inn Chattanooga Downtown	Upscale	1996	76
16	DoubleTree by Hilton Hotel Chattanooga Downtown	Upscale	1978	186
17	The Choo Choo Hotel	Upscale	1973	75
18	Ascend Collection District 3 Hotel	Upscale	1971	103
19	MOXY Chattanooga Downtown	Upper Midscale	2018	108
20	Holiday Inn & Suites Chattanooga Downtown	Upper Midscale	2015	139
21	Hampton Inn & Suites Chattanooga/Downtown	Upper Midscale	2011	134
22	Holiday Inn Express Chattanooga Downtown	Upper Midscale	2008	92
23	Comfort Inn Downtown Chattanooga	Upper Midscale	1992	91
24	Motel 6 Chattanooga Downtown	Economy	1997	60
25	Red Roof Inn & Suites Chattanooga Downtown	Economy	1996	50
26	Hotel Bo, a Days Inn by Wyndham	Economy	1967	141
	PIPELINE (PLANNED & PROPOSED)			
27	Bunkhouse	Independent	2026	90
28	Embassy Suites by Hilton	Upper Upscale	2025	184
29	Home2 Suites and Tru by Hilton	Upper Midscale	2025	180
30	*The Bend Phase 2*	*Independent*	*Unknown*	*175*
31	Waymark Tapestry by Hilton	Upscale	2025	148
32	La Quinta Inns & Suites	Economy	2024	123
33	Drury Plaza	Upper Midscale	Unknown	225
34	*The Bend Phase 3*	*Independent*	*Unknown*	*420*

Note: Plans for The Bend are italicized to reflect uncertainty.

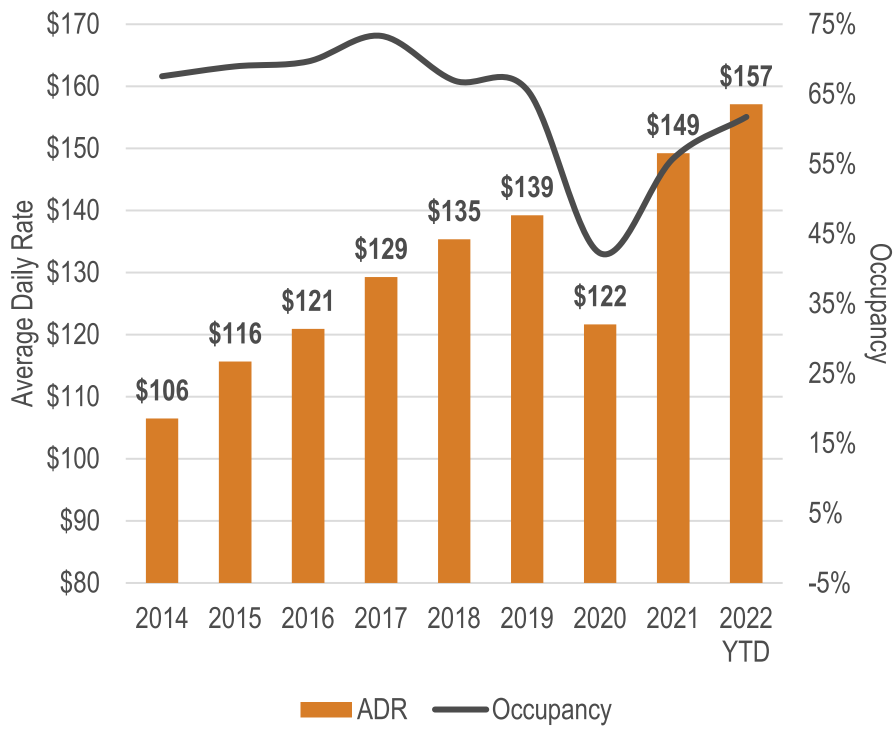
Source: Smith Travel Research; CoStar; Business Journals; RCLCO

OCCUPANCY & ADR COMPARISON

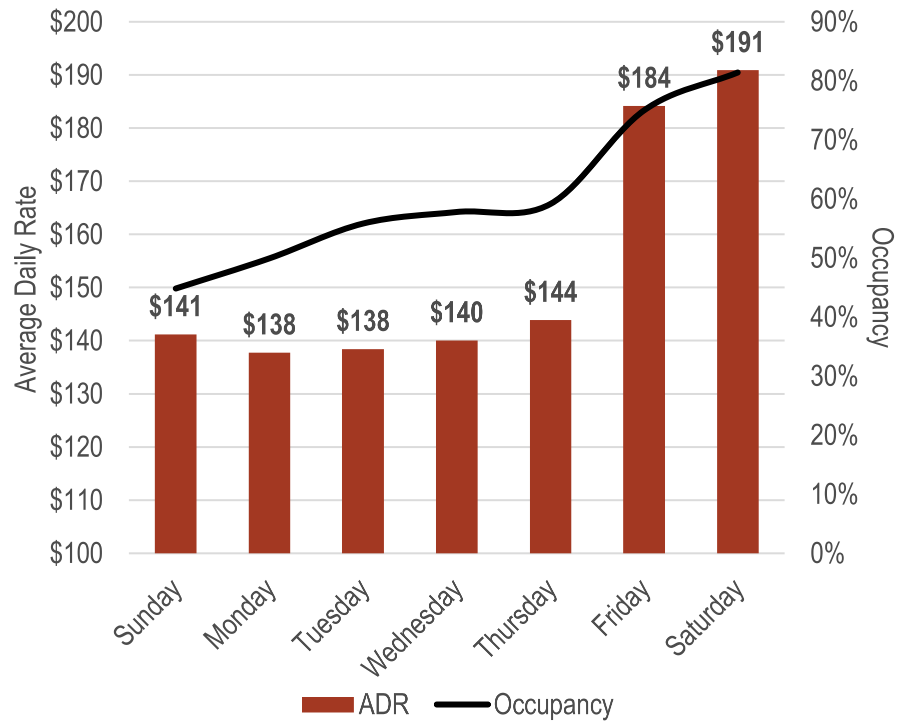
ADR HAS RECOVERED SINCE THE COVID-19 PANDEMIC, WITH OCCUPANCY LAGGING BEHIND; HOTEL MARKET DRIVEN BY WEEKEND VISITORS

- In Downtown Chattanooga, average daily rate (ADR) has been consistently increasing over the last several years, with several new Upper Upscale hotels delivering since 2017. At the same time, average occupancy has fluctuated between 70% and 73%, decreasing slightly in 2018 and 2019, also due to new hotel rooms being added to the market.
- In 2020, due to the COVID-19 pandemic, occupancy fell to 42% and ADR decreased to $122. Since then, ADR jumped up in 2021 to $149, surpassing even 2019 rates. This is in part due to two additional Upper Upscale hotels—the *Kinley Chattanooga* and the *Hotel Indigo Chattanooga*—as well as a surge in post-pandemic leisure travel.
- Overall, the Downtown Chattanooga hotel market is driven by weekend visitors, with ADR and occupancy increasing by nearly a third between Sunday-Thursday and Friday-Saturday. Given this current trajectory, RCLCO evaluated the future hotel demand in comparison to the hotel pipeline to determine unmet demand, if any.

Historical Occupancy and ADR Comparison by Year
Downtown Chattanooga; 2014-2022 YTD



Historical Occupancy and ADR Comparison by Day of the Week
Downtown Chattanooga; 2014-2022 YTD



Note: 2022 year-to-date data is through August 2022.

Source: Smith Travel Research; RCLCO

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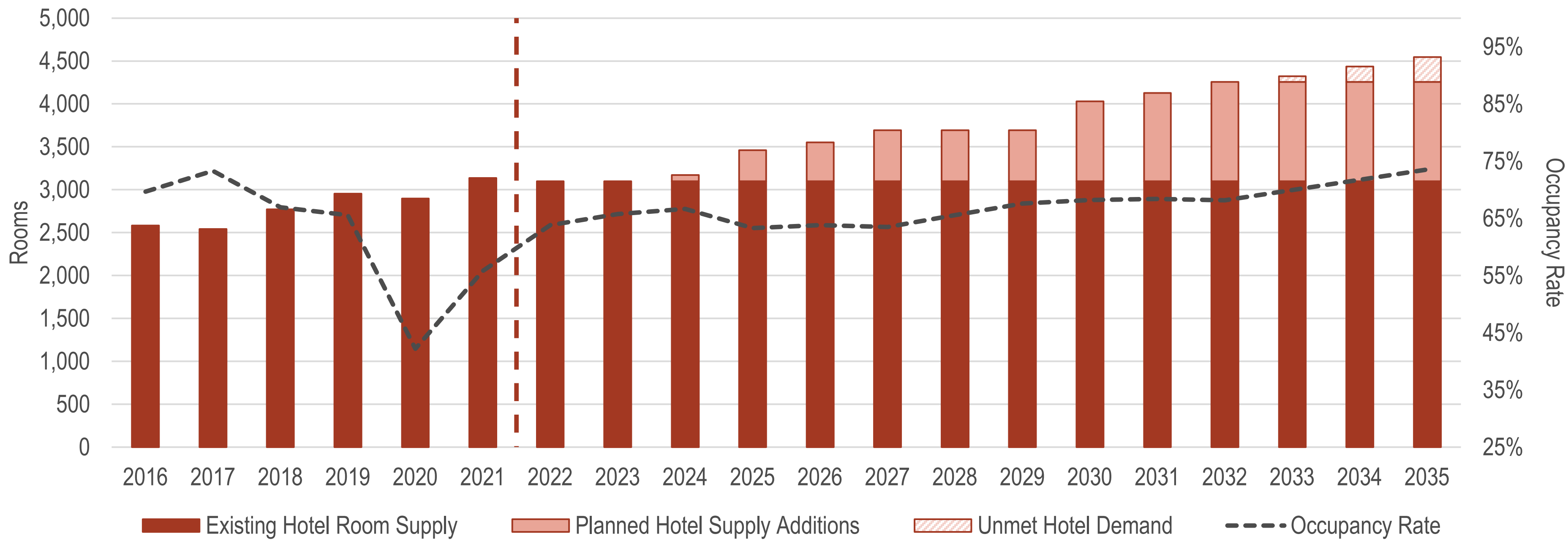
RCLCO ESTIMATES DEMAND FOR 536 HOTEL KEYS IN DOWNTOWN CHATTANOOGA THROUGH 2035

- For the purpose of determining demand for additional hotel rooms beyond what is already existing and planned in Downtown, RCLCO forecasts overall room night demand through 2035. RCLCO assumed that following the 14% increase in occupancy in 2021, occupancy would increase on average by about 3% annually, with a target "stabilized" occupancy of 68.9%, the average occupancy observed in Downtown between 2015 and 2019.
- Following the COVID-19 pandemic, occupancy has not completely recovered as of 2022. RCLCO expects no new hotel deliveries in the very near term, so occupancy will re-approach pre-pandemic levels in 2024. However, given the number of pipeline projects slated to deliver in later years—many of which are already associated with a flag, implying a high likelihood of delivery—RCLCO's view is that the market has already responded to strong future expectations for the hospitality market, and demand will be well-met throughout the next decade. RCLCO does not project any unmet demand until 2033, at which point RCLCO projects average annual demand for 179 keys between 2033 and 2035, or two-to-three additional hotels. Given these conditions, RCLCO does not recommend any additional intervention to encourage hotel development Downtown in the short term, given the quantity of product in the pipeline, which warrants caution so as not to upset the supply-demand balance as the hotel market continues to recover from the pandemic. However, any expansions or renovations to the Convention Center may drive additional demand, potentially creating some unmet demand for new hotel rooms located in the immediate vicinity of the Convention Center.

Supply and Demand for All Hotel Rooms
Downtown Chattanooga; 2016-2035



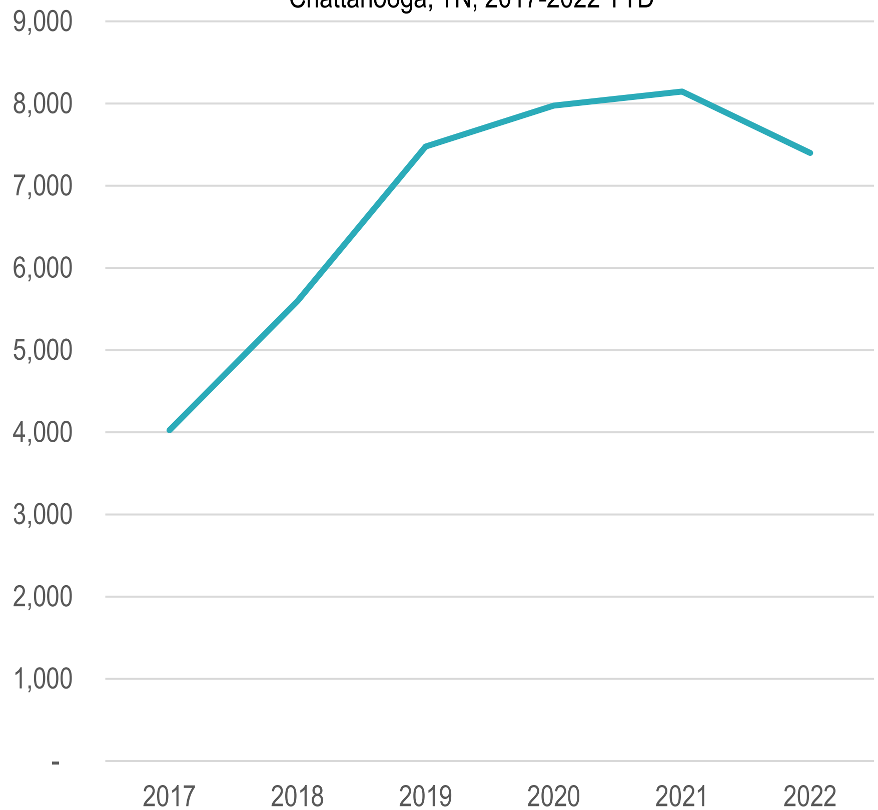
Source: Smith Travel Research; RCLCO

AIRBNB MARKET OVERVIEW

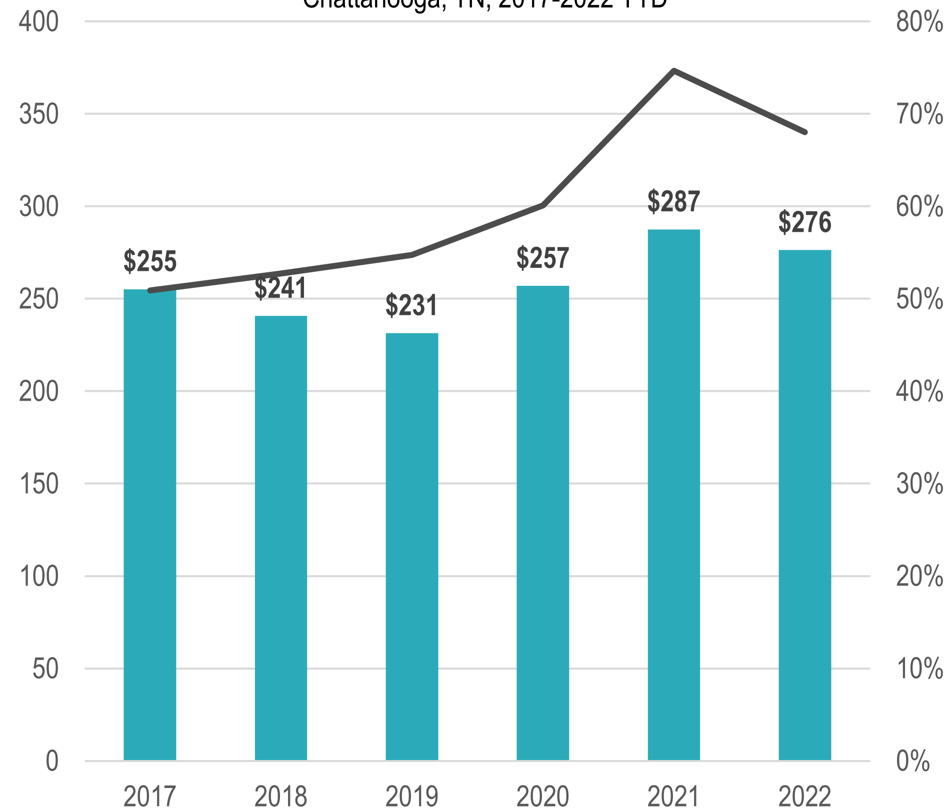
DESPITE HOTEL OCCUPANCY AND ADR DROPPING, THE SHORT-TERM RENTAL MARKET GREW DURING THE PANDEMIC

- Despite the hotel market experiencing a contraction during the COVID-19 pandemic, the short-term rental market grew significantly, with ADR, occupancy, and number of listings reaching an all-time high, despite short-term rentals being subject to a number of binding regulations since 2009.
- The jump in occupancy in 2021 from 60% to 75%, despite an increase in the number of listings, is in large part due to a shift in preferences that emerged in the pandemic for travelers to have their own space to avoid sharing common areas with other travelers.
- So far in 2022, however, there has been a dip in listings, ADR, and occupancy for short-term rentals. This is in part due to data only being available for part of a year, but also due to a moratorium placed on new short-term vacation rentals until January 2023.

Average Active Airbnb/VRBO Units Listed
Chattanooga, TN; 2017-2022 YTD



Average Airbnb/VRBO Occupancy & ADR
Chattanooga, TN; 2017-2022 YTD



Source: AirDNA; Hamilton County; RCLCO

DISCLAIMERS

CRITICAL ASSUMPTIONS

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Our conclusions are based on our analysis of the information available from our own sources and from the client as of the date of this report. We assume that the information is correct, complete, and reliable.

We made certain assumptions about the future performance of the global, national, and local economy and real estate market, and on other factors similarly outside either our control or that of the client. We analyzed trends and the information available to us in drawing these conclusions. However, given the fluid and dynamic nature of the economy and real estate markets, as well as the uncertainty surrounding particularly the near-term future, it is critical to monitor the economy and real estate markets continuously and to revisit the aforementioned conclusions periodically to ensure that they are reflective of changing market conditions.

It has become increasingly clear that the U.S. economy is in a recession, and yet the extent of the damage to the economy and the ability to rebound from a still unfolding disruption are unknown. These events underscore the notion that stable and moderate growth patterns are historically not sustainable over extended periods of time, the economy is cyclical, and real estate markets are typically highly sensitive to business cycles. Further, it is particularly difficult to predict inflection points, including when economic and real estate expansions will end, and when downturn conditions return to expansion.

Our analysis and recommendations are based on information available to us at the time of the writing of this report, including the likelihood of a downturn, length and duration, but it does not consider the potential impact of additional/future shocks on the national and/or local economy, and does not consider the potential benefits from major "booms" that may occur. Similarly, the analysis does not reflect the residual impact on the real estate market and the competitive environment of such a shock or boom. Also, it is important to note that it is difficult to predict changing consumer and market psychology. As such, we recommend the close monitoring of the economy and the marketplace, and updating this analysis as appropriate.

Further, any project and investment economics included in our analysis and reports should be “stress tested” to ensure that potential fluctuations in revenue and cost assumptions resulting from alternative scenarios regarding the economy and real estate market conditions will not cause unacceptable levels of risk or failure.

In addition, and unless stated otherwise in our analysis and reports, we assume that the following will occur in accordance with current expectations by market participants:

- Tax laws (i.e., property and income tax rates, deductibility of mortgage interest, and so forth)
- Availability and cost of capital and mortgage financing for real estate developers, owners and buyers
- Competitive supply (both active and future) will be delivered to the market as planned, and that a reasonable stream of supply offerings will satisfy real estate demand
- Major public works projects occur and are completed as planned

Should any of the above change, this analysis should be updated, with the conclusions reviewed accordingly (and possibly revised).

GENERAL LIMITING CONDITIONS

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Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

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