



# Hamilton County - Chattanooga Area Real Estate Market Trends Analysis

Prepared for:



The Chattanooga Hamilton County Regional Planning Agency (RPA)

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Prepared by:



**Bleakly**AdvisoryGroup

**Contents**

**Background and Acknowledgements ..... 2**  
**Executive Summary..... 3**  
**Introduction..... 6**  
**Key Real Estate Drivers in Hamilton County ..... 7**  
**Population and Household Growth Forecasts ..... 8**  
**Residential Real Estate Demand..... 10**  
**Commercial Real Estate Demand ..... 14**  
**Subarea Development Potential ..... 17**  
**Mixed Use Opportunity Analysis ..... 25**  
**Terms and Conditions Governing This Research and Report..... 31**

## Background and Acknowledgements

In March 2016 the Chattanooga Hamilton County Regional Planning Agency (RPA) engaged Bleakly Advisory Group, Inc. to conduct a **Real Estate Market Trends Analysis** to provide an independent perspective on how future real estate trends will impact Hamilton County over the coming decade.

**Bleakly Advisory Group, Inc.** ([www.blagroup.com](http://www.blagroup.com)) is an Atlanta, Georgia based market and economic consulting firm that assists clients with analyzing real estate and development related issues.

Bleakly Advisory Group (BAG) gathered a wide range of primary and secondary data on Hamilton County demographic, economic and real estate trends to provide input into the analysis for this project. BAG also interviewed stakeholders in key segments of the real estate development industry and shared preliminary results with an advisory committee formed for this project. Bleakly Advisory Group greatly appreciates the time and effort of all that participated in this process.

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The Home Builders Association of Greater Chattanooga and Greater Chattanooga Association of Realtors provided funding for this project.

*Cover photo: Chattanooga viewed from Stringer's Ridge, October 7, 2012. Author: Imilious. Licensed under Creative Commons.*

## Executive Summary

Hamilton County population and employment growth – the major drivers of real estate demand – have been moderately steady in the recent past and the level of growth appears sustainable into the next decade. Recent years have seen healthy increases in new home sales volumes, driven by employment and corresponding household growth in the county. Overall county home prices and sales volumes have returned and exceed pre-recession levels.

While the economic outlook is positive in Chattanooga and Hamilton County, the corresponding real estate market growth will continue to impact some areas of the county more than others. Areas in and near downtown Chattanooga and in the southeastern portions of the county will likely continue to capture outsized portions of population and employment growth relative to other areas of the county.

Further, shifts in the demand for residential and commercial real estate will impact the built environment in the county as the future supply will need to satisfy changing demographics and preferences. For example, homeownership rates have declined in the Chattanooga region, as they have throughout the nation, leading to an expanded rental apartment market over the past five years.

Similarly, the commercial real estate market, nationally as well as locally, is undergoing important changes. Hamilton County continues to be regional retail hub supported, not only by local households, but also by out-of-county households and tourists. The local retail market appears to have stabilized over the past three years, after five years of decline during the Great Recession, although lower than normal new supply has been added recently. The office market has also seen very little new construction during the current overall economic expansion. Nevertheless, job growth induces new demand, which should lead to new supply additions throughout the next decade.

The shape of future retail supply is being impacted by shifting lifestyle preferences, of which shopping is a major component. For example, the retail industry is observing a shift away from traditional anchors, such as department stores, at shopping centers and malls. In the office market, tenants are often seeking creative and collaborative employees by locating in “non-traditional” office spaces in active and walkable environments. This suggests that office buildings of tomorrow may become less of a stand-alone real estate product and more a part of mixed use developments.

The implications of the current and future shifts in supply and demand in Hamilton County real estate should provide both the public and private sector with opportunities to assess past patterns and practices to determine if planning and development changes are necessary.

The following questions can serve as a guide for future decision making regarding real estate development in Hamilton County:

## **Residential**

- **Where will the next decade's 13,000 new market rate households live in Hamilton County?**
  - Assuming 33% of demand can be met in infill locations and 67% in "greenfield," **1,200 acres** of greenfield residential development will be required for this development.
  - Or **1,700 acres** if 95% is greenfield development.
  - What land use policies are needed to create a more level playing field between infill and greenfield development?
  - 40% (5,250 units) of the next decade's market-rate demand is for rental housing.
    - Are there appropriate opportunities for rental near:
      - places of employment
      - transit
      - existing commercial corridors
      - or in mixed use districts that promote walkability?
- **How can affordable housing demand be accommodated?**
  - 50%+ of rental demand is from households with low and moderate incomes—market forces will not address the entirety of these needs.
  - What land uses are needed to support the creation of mixed income, affordable and workforce housing in key equitable locations?
- **Are the most desirable areas equipped to handle growth?**
  - 75% of future housing demand will occur in just 5 of 11 county subareas.
  - Are land use policies, services and transportation infrastructure in place, or planned, in these areas to accommodate this growth?

## **Commercial**

- **Where will the jobs locate?**
  - Hamilton County will add 30,000+ jobs over the next decade.
  - Assuming the roughly historic 50/50 split between the Chattanooga core and other areas, are there adequate opportunities to strengthen and establish employment centers outside of downtown?
  - What land use policies are necessary to develop all current and future job centers to support the continued growth of Hamilton's economy over the coming decade?

- **What does tomorrow's retail landscape look like?**
  - New retail growth in the county will be modest over next 10 years: 1,000,000 square feet.
  - As the retail marketplace continues its 21<sup>st</sup> century transformation, retail development patterns are also changing. Are policies adequate for the new realities?
  - A large portion of the future retail growth will likely seek a new 21<sup>st</sup> century model:
    - Retrofit and redevelopment of existing commercial centers
    - More mixed use development at key nodes and locations throughout the region
    - Local services, convenience goods at the neighborhood level.

#### **Mixed Use Placemaking**

- **Can Downtown Chattanooga's great placemaking success transfer to the rest of Hamilton County?**
  - "Placemaking" is a defining trend in 21<sup>st</sup> century real estate development, shaping new markets and opportunities throughout the nation.
  - Chattanooga is a national model for a long-term effort in community placemaking.
  - It is recognized as one of the most appealing compact downtowns in the nation and has become a major regional destination due to decades of focused effort by civic leadership.
- **What are the appropriate land use policies that can encourage:**
  - Walkable neighborhood-scale districts throughout the developing portions of the county?
  - Overlay zoning districts for areas to support mixed use places?
  - Walkable environments around civic institutions, job centers, historic landmarks?
  - New parks, greenways and other civic spaces that can be catalysts for future development?

## Introduction

This report provides an analysis of the potential future demand for housing, retail and commercial development in Hamilton County over the coming decade. In order to determine potential future demand, Bleakly undertook a series of research and analytical efforts, including:

1. Defining the Key Drivers of the Hamilton County's Real Estate Market
2. Defining the Key Real Estate Submarkets in Hamilton County
3. Interviews with RPA Staff and Stakeholders
4. Supply Analysis of the Owner and Renter Residential, Office and Retail Markets
5. Future Demand Analysis of the Residential, Office and Retail Markets 2016-2026
6. Potential Future Mixed Use Location Analysis

The results of the research and analysis are intended to be used as key baseline data for making future land use planning and real estate development policy decisions in Hamilton County.

This written report summarizes the findings of the research and analysis while the accompanying slides provide much of the data and other research results that contributed to the analysis. A list of data sources used in the research and analysis for this project can be found in the appendix.

**Figure 1: Hamilton County Real Estate Market Analysis Process**

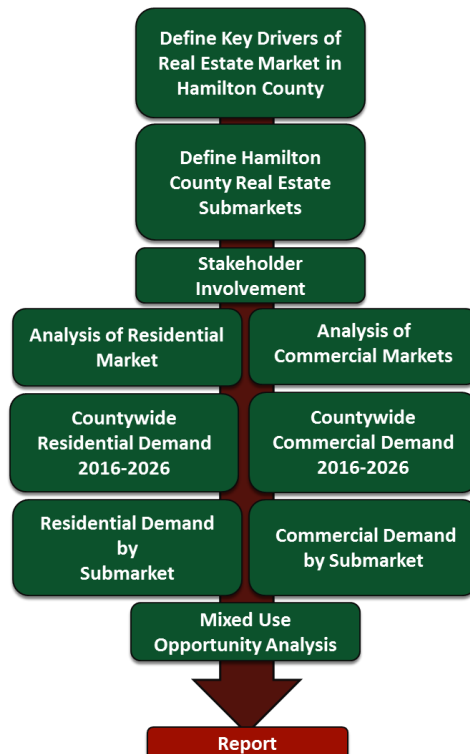


Figure 1 above outlines the analytical process used to define the future real estate demand in Hamilton County. The basic analytical approach was to forecast future population/household

growth and employment growth in the county over the next decade and convert the growth forecasts to countywide real estate demand forecasts for residential, office and retail uses.

The countywide demand forecasts were disaggregated into 11 subareas within the county based upon long- and short-term growth trends in residential development, the prevalence of existing inventory by land use type and an assessment of potential growth patterns in the county. From this analysis future demand estimates for residential, office and retail demand in each subarea were derived and reconciled with the overall demand estimates for the county.

## Key Real Estate Drivers in Hamilton County

The following factors have been identified as key drivers in Hamilton County's real estate market over the coming decade:

**Hamilton County is geographically large and topographically varied**— Thus, the county offers a wide range of living and working alternatives to residents of the area. Residential options include urban in-town living, vibrant mixed use areas, older established neighborhoods/communities, rapidly suburbanizing areas and areas of the county that retain a rural character. The varied residential options allow the county to accommodate a wide range of lifestyles and living preferences within its borders, both today and in the future.

**The negative impacts of the Great Recession have been overcome**— Data on population, household and job growth, as well as home sale trends, indicate that Hamilton County has largely put lingering negative effects of the Great Recession behind it. For example, employment has recovered from a low of under 175,000 in 2009 to over 195,000 by 2016.

**The strength of Hamilton County's economy is its diversity across employment sectors**— Hamilton County's economy is highly diverse with strong presence in health care, manufacturing, government, transportation and retail. This diversity has allowed it to rebound strongly from the Great Recession, but not equally across all sectors. Health care, the arts and administration have shown the greatest growth over the past decade. This diversity within the county's economy should allow for steady growth over the coming decade as forecast by University of Tennessee Center for Business and Economic Research (UT-CBER).

**Hamilton County is the focal point of employment and retail spending in the region**— Hamilton County is the employment center for a multi-county region with 88,000 employees migrating into the county for jobs every day. It also has the largest concentration of retail in the region— 27,000,000 SF—which is a magnet that draws additional retail spending into the county from the larger market; this trend will continue over the coming decade.

**Local leadership is focused on attracting industries of the future and expanding tourism as additional building blocks of the local economy**— Hamilton County, particularly Chattanooga, has

created a unique environment with broad appeal to visitors and tourists from the southeast region and the nation. Economic development efforts are focusing on expansion of future-oriented businesses; these are key elements in assuring the economic vibrancy of Hamilton County over the coming decade.

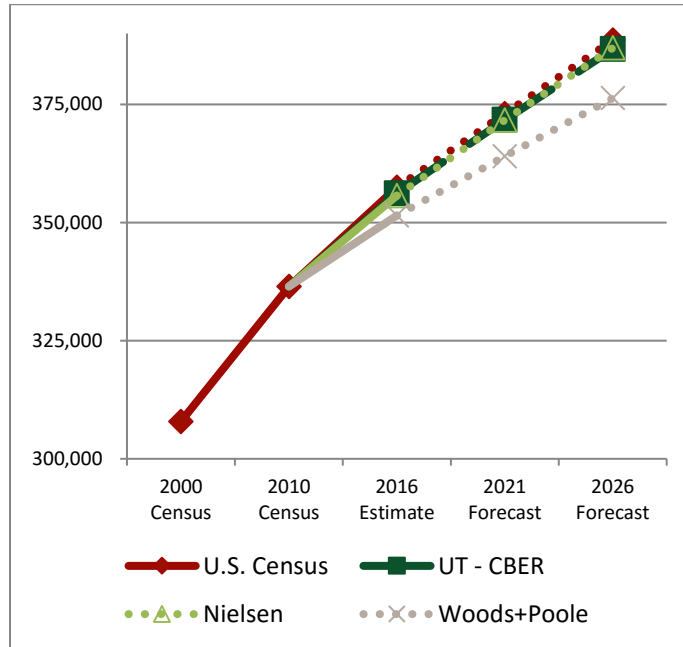
## Population and Household Growth Forecasts

Bleakly Advisory Group developed forecasts of Hamilton County's future demand potential for real estate land uses based on detailed assessments of past and future growth in the county's population and employment, as well as past and current performance of the real estate market sectors. These assessments provide the basis for countywide 10-year real estate demand estimates for:

- Residential Real Estate
  - By Income Range
  - Renter & Owner
- Commercial Real Estate
  - Office
  - Retail

To determine potential future population and employment in Hamilton County through 2026, Bleakly analyzed historic population and employment growth trends since 2000 based on U. S. Census Bureau data, as well as forecasts from state and national demographic data providers including the U.S. Census, University of Tennessee CBER, Nielsen, and Woods & Poole. As shown below, each forecast anticipates population growth between 0.7% and 0.9% annually in Hamilton County for the next decade. Given the tightness in the range of these forecasts, the most local source, UT-CBER, was used as the basis to estimate population and employment growth.

**Figure 2: Population Growth Forecasts, Hamilton Co., 2016-2026**



Avg. Annual Growth Forecast 2016-2026			
U.S. Census*	UT - CBER	Nielsen	Woods+Poole
0.87%	0.86%	0.88%	0.71%

\*US Census Forecast based on rolling average of historical annual growth

Historic population growth has been relatively steady in the recent past, and aligned with employment growth. Population and household growth forecasts appropriately call for a similar level of growth, which appears sustainable into the next decade. The UT-CBER forecast for Hamilton County calls for the population to grow from 336,463, as recorded in the 2010 census, to 386,785 by 2026, or 0.86% annually. This would equate to approximately 30,629 new county residents and 12,869 new households by 2026. Bleakly used this forecast in estimating future residential and retail demand potential.

**Figure 3: Population Growth Historic and UT-CBER Forecasts, Hamilton Co., 2016-2026**

Hamilton County	
2000 Census	307,903
2010 Census	336,463
2016 Estimate	356,156
2026 Forecast	386,785
Annual Growth 2000-2016	0.98%
Annual Growth Forecast 2016-2026	0.86%

## Residential Real Estate Demand

To understand recent housing trends in Hamilton County, Bleakly analyzed MLS data tracking all existing and new home sales in the county since 2003. This provided a detailed understanding of the county for-sale housing market relevant to the future demand analysis.

The home sales boom and bust that dominated the national real estate market from 2000 to 2010 was significantly muted in Hamilton County. Over the 2000-2015 period, Hamilton County single-family home prices increased by 50%, compared to the national Case-Shiller Index national average of 76%. Recent years have seen increases in new home sales volumes in the county. Overall county home prices and sales volumes have returned and exceed pre-recession levels. The recent growth appears healthy, driven by household growth in the county.

Since 2003, Hamilton County has seen an average of 4,563 existing resale and new home sales annually, with 86% existing homes. The average price of an existing home sale in Hamilton in 2016 is \$188,459. An average of 618 sales annually were new homes, which includes the housing boom years. The average price of a new home in county in 2016 is \$299,533. The new home market is driven largely by single-family homes, with townhomes making up 15% of sales over the past decade.

**Figure 4: Home Sales Volume and Prices, Hamilton County, 2003-2015**

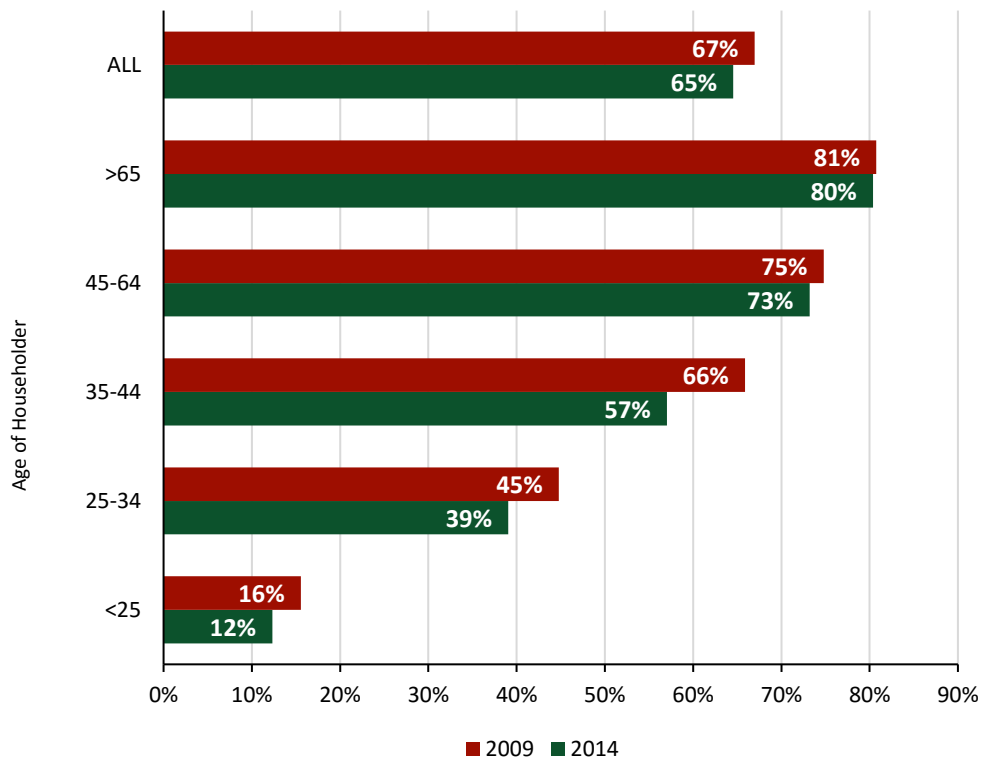
Year	Sales Volumes				Average Sale Price			
	Existing Home Sales	New Home Sales	All Home Sales	Ratio Ex:New	Existing Home Price	New Home Price	All Home Price	Ratio Ex:New
2003	3,662	478	4,140	7.7	\$143,291	\$205,366	\$150,458	70%
2004	3,936	764	4,700	5.2	\$151,378	\$220,619	\$162,634	69%
2005	4,057	858	4,915	4.7	\$160,641	\$238,029	\$174,151	67%
2006	4,208	934	5,142	4.5	\$166,053	\$254,676	\$182,151	65%
2007	3,942	862	4,804	4.6	\$163,054	\$258,405	\$180,163	63%
2008	3,333	651	3,984	5.1	\$170,257	\$274,986	\$187,370	62%
2009	3,232	483	3,715	6.7	\$155,071	\$259,786	\$168,686	60%
2010	3,413	439	3,852	7.8	\$153,922	\$248,613	\$164,713	62%
2011	3,303	415	3,718	8.0	\$154,982	\$260,116	\$166,717	60%
2012	4,042	488	4,530	8.3	\$163,578	\$264,437	\$174,443	62%
2013	4,388	524	4,912	8.4	\$166,511	\$279,800	\$178,597	60%
2014	4,489	569	5,058	7.9	\$170,920	\$293,770	\$184,740	58%
2015	4,927	570	5,497	8.6	\$188,459	\$299,553	\$199,978	63%
<b>Avg.</b>	<b>3,918</b>	<b>618</b>	<b>4,536</b>	<b>6.3</b>				

Source: Bleakly Advisory Group based on data from Greater Chattanooga Board of Realtors MLS

## Home Ownership Trends

One, of many, factors that will shape Hamilton County housing demand over the next decade will be the changing nature of home ownership. In 2016, the U.S. homeownership rate fell to its lowest level in more than 50 years, with the share of Americans who own their homes now 63%, the lowest since 1965, according to the U.S. Census Bureau. Hamilton County overall home ownership rate dropped 2% from 2009-2014 to 65%, whereas the City of Chattanooga saw its overall home ownership rate drop 4% from 2009-2014, to 53%. Significantly, householders younger than age 45 saw the greatest decrease in home ownership rates while older householders saw only a slight drop.

**Figure 5: Homeownership Rate by Age, Hamilton County, 2009-2014**



*Source: Bleakly Advisory Group based on data from the US Census*

The decrease in ownership rates by households age 25-44 has an outsized impact on the residential real estate market. These younger households are typically first-time home buyers and often first time “move up” buyers who are seeking a larger home for a growing family. National experts typically attribute decreasing homeownership among younger households to burdensome debt loads and delays in marriage and parenthood, which are often the primary drivers of homeownership. However, the drop in homeownership rate has been a boon for the apartment market, both nationally and locally. For example, from 2000-2010 average asking rents in Hamilton County grew by 1.1% annually; since 2011, as the apartment inventory has grown tremendously, rent growth has increased to 3.9% annually.

Housing demand originates from three consumer buyer segments: new households moving to the county, current owner households in turnover and current renter households in turnover. To estimate future housing demand, Bleakly analyzed these three segments in the county by income level, tenure (ownership vs. rental), annual turnover, preference to buy new, and preference to buy detached/attached homes. The analysis assumes Hamilton County will grow by nearly 13,000 households over the 2016-2026 period. The potential housing demand resulting from this household growth is summarized in the chart below.

**Figure 6: New For-Sale Homes – Annual County Demand Potential, 2016-2026**

Home Price:		Below	\$150,000	\$300,000	\$500,000	TOTAL	
		\$150,000	\$300,000	\$500,000	and above		
		Income:	Below	\$35,000	\$65,000		\$102,000
		\$35,000	\$65,000	\$102,000	and above		
POTENTIAL SALES							
	Age 25 - 34	192	240	233	217	883	
	Age 35 - 44	273	344	342	303	1,262	
	Age 45 - 54	219	306	340	519	1,384	
	Age 55 - 64	228	256	229	303	1,017	
	Age 65+	279	203	127	93	703	
Total Potential Annual Home Sales		1,192	1,350	1,272	1,435	5,249	
% Single-Family Detached (SFD)		70%	85%	90%	90%		
	Potential SFD Sales	834	1,148	1,145	1,291	4,418	
	% New SFD	5%	15%	18%	12%		
Potential Annual New SFD Sales		42	172	206	155	575	
	% Townhome	15%	10%	5%	5%		
	Potential TH Sales	179	135	64	72	449	
	% New TH	10%	35%	35%	40%		
Potential Annual New TH Sales		18	47	22	29	115	
	% Condo	15%	5%	5%	5%		
Potential Condo Sales		179	68	64	72	382	
	% New Condo	5%	20%	20%	20%		
Potential Annual New Condo Sales		9	14	13	14	50	
TOTAL Potential Annual New Home Sales		69	232	241	198	740	

The results of the analysis show potential average annual demand for up to 740 sales of new homes through 2026, with 85% of those sales (575) single-family homes. Attached homes (townhomes and condominium) could provide opportunities for 115 and 50 annual sales of new homes respectively. Demand from seniors (65+) could account for approximately 13%-15% of all potential home sales.

**Figure 7: New Rental Housing Units – Annual County Demand Potential, 2016-2026**

Monthly Rent:	Below \$875	\$875 - \$1,250	\$1,250 - \$1,875	\$1,875 - \$2,500	\$2,500 and above	TOTAL
Income:	Below \$35,000	\$35,000 - \$50,000	\$50,000 - \$75,000	\$75,000 - \$100,000	\$100,000 and above	
<b>New Household Growth, 2016 - 2021</b>						
Households <25	28	4	2	0	0	34
Households 25-44	108	30	27	11	8	185
Households 45-64	102	29	30	13	16	190
Households >64	55	9	6	3	2	74
<b>Estimated New Renter Households</b>	<b>293</b>	<b>72</b>	<b>65</b>	<b>27</b>	<b>26</b>	<b>482</b>
<b>Existing Owner Household Annual Turnover</b>						
Households <25	10	4	3	0	2	18
Households 25-44	38	31	47	44	59	219
Households 45-64	18	15	26	25	62	146
Households >64	22	11	12	6	9	61
<b>Estimated Owners in Turnover Who Rent</b>	<b>88</b>	<b>61</b>	<b>89</b>	<b>75</b>	<b>132</b>	<b>444</b>
<b>Existing Renter Household Annual Turnover</b>						
Households <25	413	53	26	1	3	496
Households 25-44	1,473	415	373	150	107	2,519
Households 45-64	1,184	341	350	146	192	2,213
Households >64	394	61	41	22	13	531
<b>Estimated Renters in Turnover Who Rent</b>	<b>3,464</b>	<b>871</b>	<b>791</b>	<b>320</b>	<b>315</b>	<b>5,760</b>
<b>Total Qualified Households/ Demand Potential</b>	<b>3,845</b>	<b>1,003</b>	<b>944</b>	<b>422</b>	<b>473</b>	<b>6,687</b>
Est. % Rent Apartments						17%
<b>HAMILTON CO. ANNUAL APARTMENT DEMAND</b>	<b>654</b>	<b>171</b>	<b>161</b>	<b>72</b>	<b>80</b>	<b>1,137</b>

Potential demand exists for up to 1,200 new apartments annually in Hamilton County. However, less than 45% (500+/- units annually) of that potential is for market rate renters with annual incomes \$35,000+ (monthly rents \$850+).

As the new homebuilding market continues to recover from the Great Recession and new realities regarding home ownership continue to emerge, new preferences for homes in Hamilton County could shift the demand for various home types. These shifts in demand have the potential to impact both how and where new homes, attached and detached, for-sale and for-rent, are located in the county. For example, townhomes and condominiums have an opportunity to capture a greater share of the sales in the lower home sale price bands. Local planners will be well-served to continue to monitor shifting residential demand preferences and align future land use policy accordingly.

Further, long-term national trends are redefining the distribution of households by income with implications on the local housing market. These trends are showing a diminishing middle class in America, with a wider gap between the lowest and highest household incomes. This trend impacts the availability of quality homes that are affordable to lower income households located in areas near employment opportunities.

As noted above, Bleakly determined that potential demand exists for up to 1,200 new apartments annually in Hamilton County, with 55% of that potential for renters with annual incomes less \$35,000 (approximately 80% AMI). These households could afford monthly rents at \$850 and

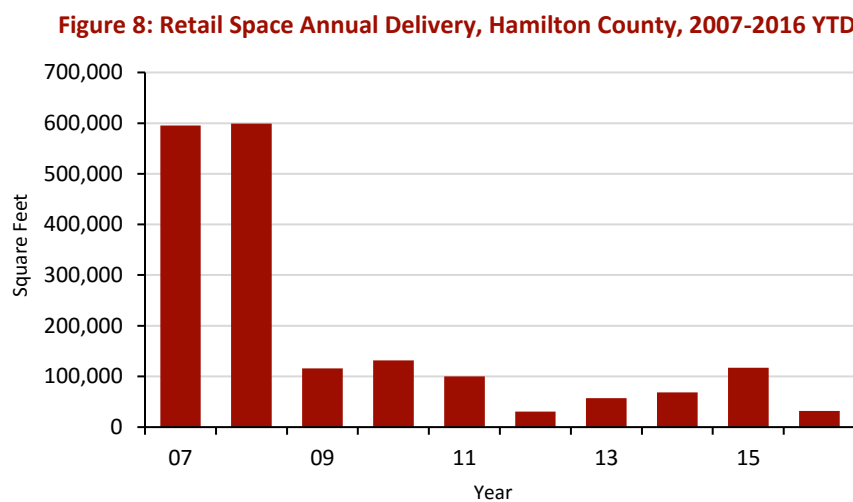
below, while paying a third of their income or less on housing. New deliveries for apartments priced less than \$850/month, which is over half of all the county rental demand, would likely need some form of affordable housing subsidies, or other assistance, due to the rising cost of new construction and delivery.

These housing issues have far-reaching impacts. For example, the Brookings Institution reports that more low income people now live in the suburbs than in metropolitan core cities across the nation. Nationally, suburbs often lack a robust community infrastructure, such as transportation options, that are more commonly found in inner-city communities. That is, “the geography of poverty” has shifted to older suburban areas over the last few decades.<sup>1</sup> This shift should impact the housing discussion in Hamilton County over the next decade. Linking affordable housing to jobs and transportation networks is one potential solution with many benefits. Hamilton County could seize the opportunity to “insert” housing units into aging commercial corridors to help lighten transportation costs, which could benefit households at all income levels.

## Commercial Real Estate Demand

### Retail

Chattanooga is a regional retail hub supported by both local households and by spending by out-of-county households and tourists. Non-automotive retail sales in Hamilton County totaled over \$5.5 billion dollars in 2015. One-third of those sales were estimated to take place at food and beverage stores with another 15% at restaurants. This amount of retail sales supports an inventory of approximately 27 million SF of retail space per CoStar. Between 2000 and 2015, an average of 201,000 SF was added to Hamilton County’s retail inventory annually. As of 2Q 2016, 54,500 SF of space is under construction, to be completed over the next 18 months.



Source: Bleakly Advisory Group based on data from CoStar

<sup>1</sup> *Confronting Suburban Poverty*, The Brookings Institution, 2016.

The decrease in retail supply additions, despite an improving economy and continued local household growth, points to a potential uncertainty about sustained trends in consumer spending as well as uncertainty in the future demand for additional “bricks and mortar” retail locations due to the advent and growth in e-commerce. Nevertheless, sales at physical retail locations are still the dominant source of spending, both nationally and locally, and this fact will likely continue into the next decade. However, the shape of future retail supply is being impacted by shifting lifestyle preferences, of which shopping is a major component. For example, the retail industry is observing a shift away from traditional anchors, such as department stores, at shopping centers and malls. Non-traditional anchors are gaining in preference among consumers as well as developers and investors. These anchors are often food-related—grocery stores and restaurants—as well as entertainment uses. Even among food-related uses shifts are underway. To wit, 2015 was the first year in which spending at restaurants outpaced spending at grocery stores, per the U.S. Census Bureau.

Much of Hamilton County’s 27 million SF of retail space was built prior to the advent of these new trends in retailing and is potentially faced with the possibility of functional obsolescence. Thus, as the county continues to grow and demand a different sort of shopping experience, new models of planning for future retail additions may be needed to meet the new consumer demand.

Bleakly Advisory Group determined retail demand potential for the next decade in Hamilton County by assessing the potential to capture spending “leakage” (the difference between current retail expenditures and current retail sales) as well as spending from new households to the county and spending by non-residents. Spending “leakage” occurs when resident households spend money outside of the county.

Bleakly estimates that Hamilton County has the potential to add over 100,000 square feet of retail in an average year over the next decade based on population growth projections and current spending habits of current and future Hamilton County residents.<sup>2</sup>

### Office

According to a national trend-spotting report titled “The Future of Workplace” from architecture and design firm Gensler, “Developers are transforming the commercial office building model as they refocus on their tenants’ need to recruit a younger, more creative and collaborative workforce. Its preference for buildings that map to its values puts a premium on sustainability, wellness, loft-like spaces, and locations that are active, transit-friendly, and walkable. As this suggests, another big shift is that office buildings are less of a stand-alone real estate product and more a part of mixed use.” Bleakly’s research for this report, and in other assignments throughout the larger region, confirms that this trend is occurring broadly in Chattanooga and Hamilton County.

The full impact of the transformation occurring in the office sector, like retail, is still to be determined in Hamilton County. Over half (50.1%) of the county’s office space is clustered

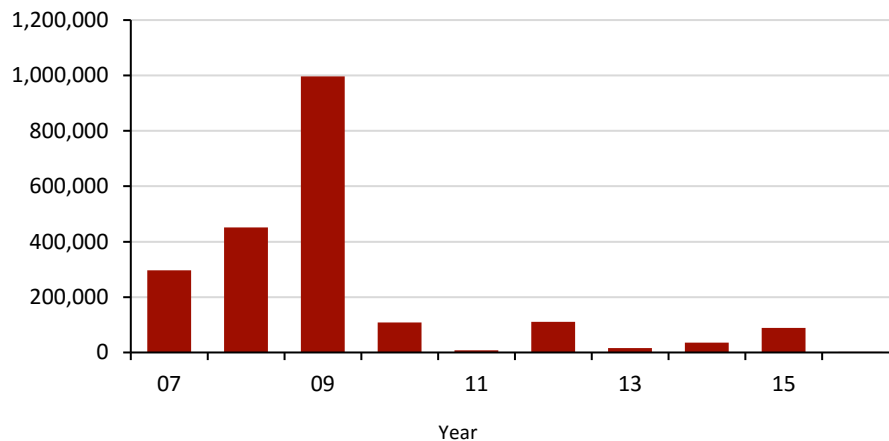
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<sup>2</sup> This analysis accounts for retail store types that are non-automotive associated. That is, demand for gas stations, auto repair shops, and the like were excluded for the analysis.

downtown (as defined as the Downtown subarea later in this report) and only 12% of that space was built within the past decade. While older buildings have the potential to meet the growing demand from companies looking for space attractive to the “younger, more creative and collaborative workforce” due to their location near amenities and buildings with authentic historical character, the age of the building stock, among other concerns, still threatens particular properties in downtown, according to interviews Bleakly conducted during research for this report. While older properties may have historical character, they also face deterioration and functional obsolescence problems common to aged buildings. Nonetheless, the downtown office market is currently relatively “tight,” with overall vacancy at less than 8%, according to CoStar.

Hamilton County has an estimated 17.9 million SF of office space. Like the retail sector, the office sector has seen a limited amount of supply added in the post-recession period, a period of employment growth. Less than 2% of the current county office inventory has been added in the past decade—a total of 235,000 SF (absorption averaged 67,000 SF annually).

**Figure 9: Office Space Annual Delivery, Hamilton County, 2007-2016 YTD**



Source: Bleakly Advisory Group based on data from CoStar

In order to forecast growth in demand for Hamilton County office space, Bleakly used two forecasts, from Woods & Poole and from the Tennessee Department of Labor, to develop a “consensus forecast” of growth in the employment sectors that are likely to drive office space demand. As shown in Figure 10 below, this forecast calls for an addition of nearly 2,000 new employees likely to occupy office space in Hamilton County over the next decade.

**Figure 10: Office Employment Growth Forecasts, Hamilton Co., 2016-2026**

Office Related Employment Sectors	Total Employed 2016	Bleakly Annual Growth Projection	Total Employed 2021	Net Growth 2016-2021
Information	3,098	0.7%	3,198	101
Finance and Insurance	9,581	1.3%	10,211	629
Real Estate and Rental and Leasing	2,572	0.8%	2,675	103
Professional, Scientific, and Technical Svcs	8,560	2.2%	9,484	923
Management of Companies and Enterprises	3,556	0.9%	3,718	162
<b>Total</b>	<b>27,367</b>		<b>29,286</b>	<b>1,918</b>

Using the “consensus forecast” for 2016-2026 growth in the five office-related employment sectors, and converting that employment growth to square footage, demand for new office space in the county could range to over 335,000 SF on average annually.

The next decade will likely see a “re-sorting” of the office space market in Hamilton County. Bleakly estimates that, based on projected employment growth, over 3 million SF of office space will be demanded in the county through 2026. Emergence of additional office locations outside of downtown Chattanooga could occur, likely in an amenitized area of the county. Planning decisions will need to be made regarding the desired scale, location and context in which that new office space is delivered.

### Annual Demand Summary

Figure 11 below summarizes potential annual demand for each real estate land use and compares the potential demand to actual market performance. The future demand forecast figures are estimates of potential demand in the county based on supply and demand conditions, they are not predictions and do not consider factors that impact the likelihood of development such as zoning, development costs, local appetite for growth, etc.

**Figure 11: Potential Annual Demand by Land Use, Hamilton County, 2016-2026**

	Forecast Avg. Annual Total	2005-2015 Historical Avg.	2015 Actual
<b>Residential (Units)</b>			
Owner-Occupied Single-Family	575	668	622
Owner-Occupied Townhome	115	74	53
Owner-Occupied Condominium	50	73	11
Renter-Occupied (Market Rate)	525	457	481
<b>Retail (S.F.)</b>	<b>100,000</b>	<b>166,680</b>	<b>107,470</b>
<b>Office (S.F.)</b>	<b>325,000</b>	<b>235,265</b>	<b>0</b>

Source: Bleakly Advisory Group

### Subarea Development Potential

Within Hamilton County, due to its development history and unique geography, distinct real estate submarkets exist, and the demand for residential and retail development is different in those submarkets.

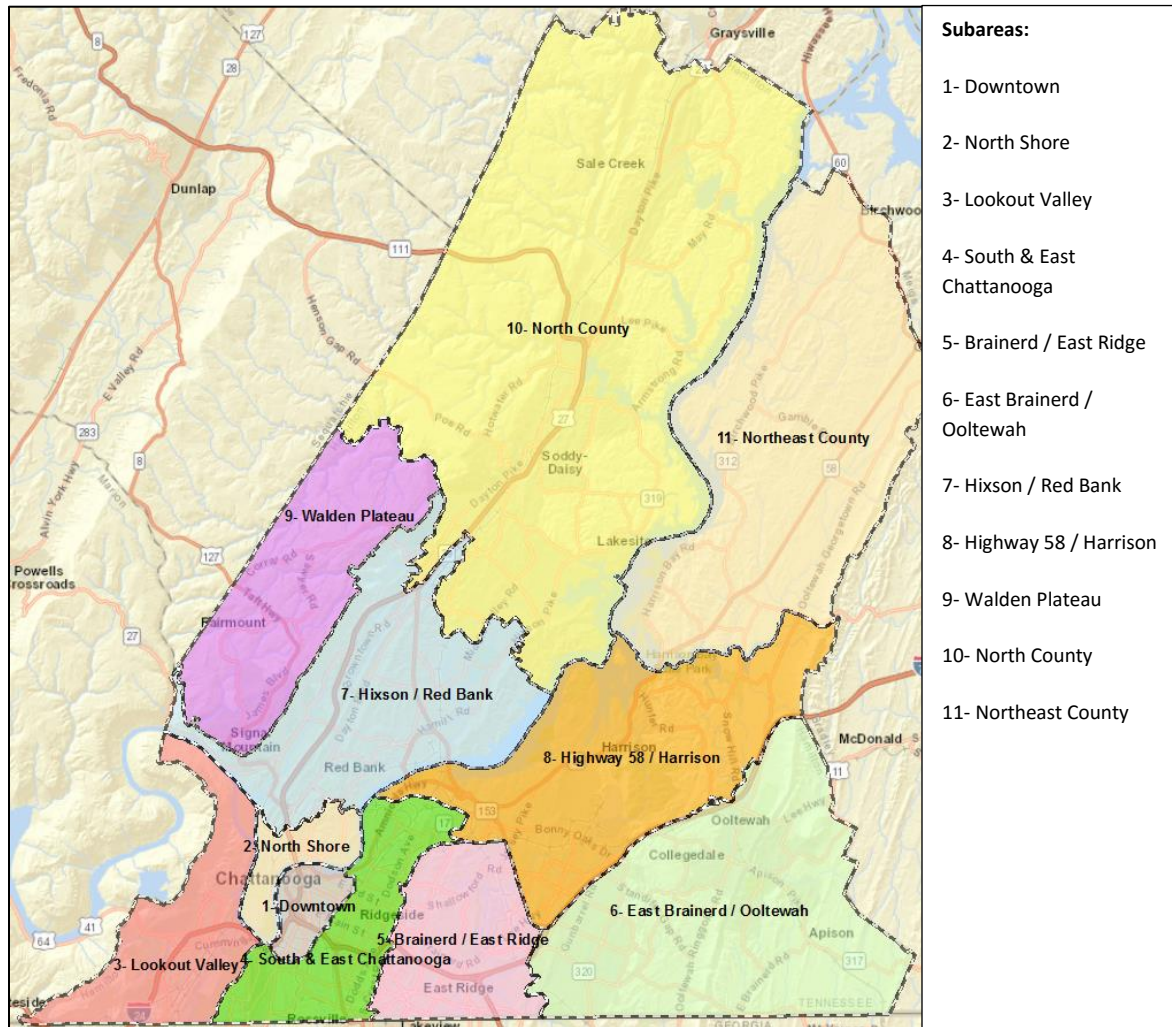
#### Defining the Subareas

Bleakly worked with RPA staff to define the appropriate submarkets within the county for analysis. The demarcation of the real estate submarkets was based on an assessment of:

- Existing Planning Districts
- Character Areas/Historic Development Patterns
- Topography
- Other Established Boundaries.

Based on that assessment, eleven subareas were defined and shown in the map below.

**Figure 12: Hamilton County Subareas**



### Subarea Residential Demand

To assess the future residential demand by subarea, BAG apportioned Hamilton County's overall future residential demand to each subarea based on consideration of three factors: the current distribution of single-family and multifamily units, the geographical momentum of new supply additions over the past decade and regional growth trends.

Over the coming decade, Hamilton County residential growth will continue both in areas near the core of Chattanooga and in desirable suburban areas. Many closer-in locations that historically attracted suburban growth have limited opportunities for new development and are, thus, not capable of garnering a share of growth equal or greater to their current share of population through infill development.

Therefore, this analysis anticipates that the greatest level of new suburban residential demand has the potential to occur in the East Brainerd/Ooltewah and Hixson/Red Bank areas. The Highway 58/Harrison area also has the potential to capture greater than 10% of residential growth. Downtown and North Shore are expected to continue to capture a large portion of urban-oriented higher-density residential growth. Historic residential areas in South & East Chattanooga, such as St. Elmo, are well-positioned to provide additional options for households seeking locations near, but not in, downtown. While the Walden Plateau area will capture a small portion of overall residential growth, it is expected to continue to provide opportunities for high-end single family detached housing product seeking a lower density environment.

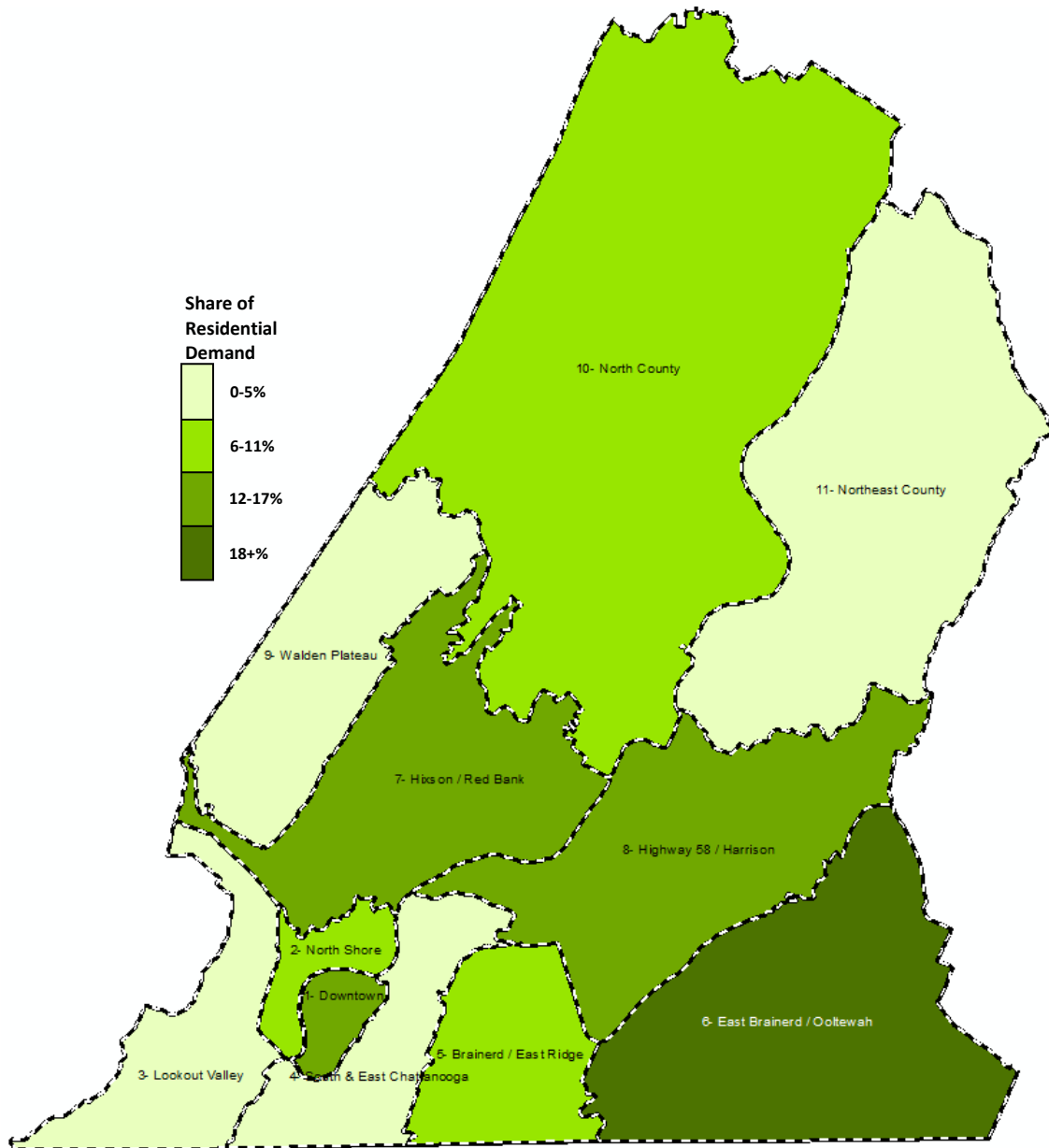
Local public school options also often play a large role in the decision of households locating to a particular area. Typically, the higher the quality of the public schools the greater the demand for residential real estate. This important decision will continue to shape future Hamilton County housing demand, and in turn, households within each school zone will shape the future of the local public schools.

**Figure 13: Subarea Residential Distribution, Current & Future Demand Potential**

	% of County Pop. 2016	Share of Future Residential Demand	Potential 10-Year Total New Home Sales (Units)	Potential 10-Year Total New Market-Rate Rental (Units)
1- Downtown	3%	13%	831	921
2- North Shore	3%	7%	576	341
3- Lookout Valley	2%	3%	247	113
4- South & East Chattanooga	12%	5%	328	364
5- Brainerd / East Ridge	14%	3%	411	0
6- East Brainerd / Ooltewah	17%	32%	1,735	2,541
7- Hixson / Red Bank	17%	15%	1,222	811
8- Highway 58 / Harrison	11%	14%	1,312	591
9- Walden Plateau	4%	2%	218	0
10- North County	13%	6%	659	98
11- Northeast County	4%	2%	209	0

Source: Nielsen and Bleakly Advisory Group

**Figure 14: Subarea Residential (For-Sale and Rental) Real Estate Future Demand Distribution**



*Source: Bleakly Advisory Group*

The map above illustrates the forecast of future housing demand potential in Hamilton County by subarea. The darker green areas are expected to capture the higher levels of residential demand potential.

### Subarea Commercial Demand

To assess the location of future commercial real estate growth potential, BAG apportioned Hamilton County's future square feet of demand for retail and office to each subarea based on two factors: the current distribution of existing leasable office and retail space and the geographical momentum of new supply additions over the past decade.

**Figure 15: Subarea Commercial Distribution, Current & Future Demand Potential**

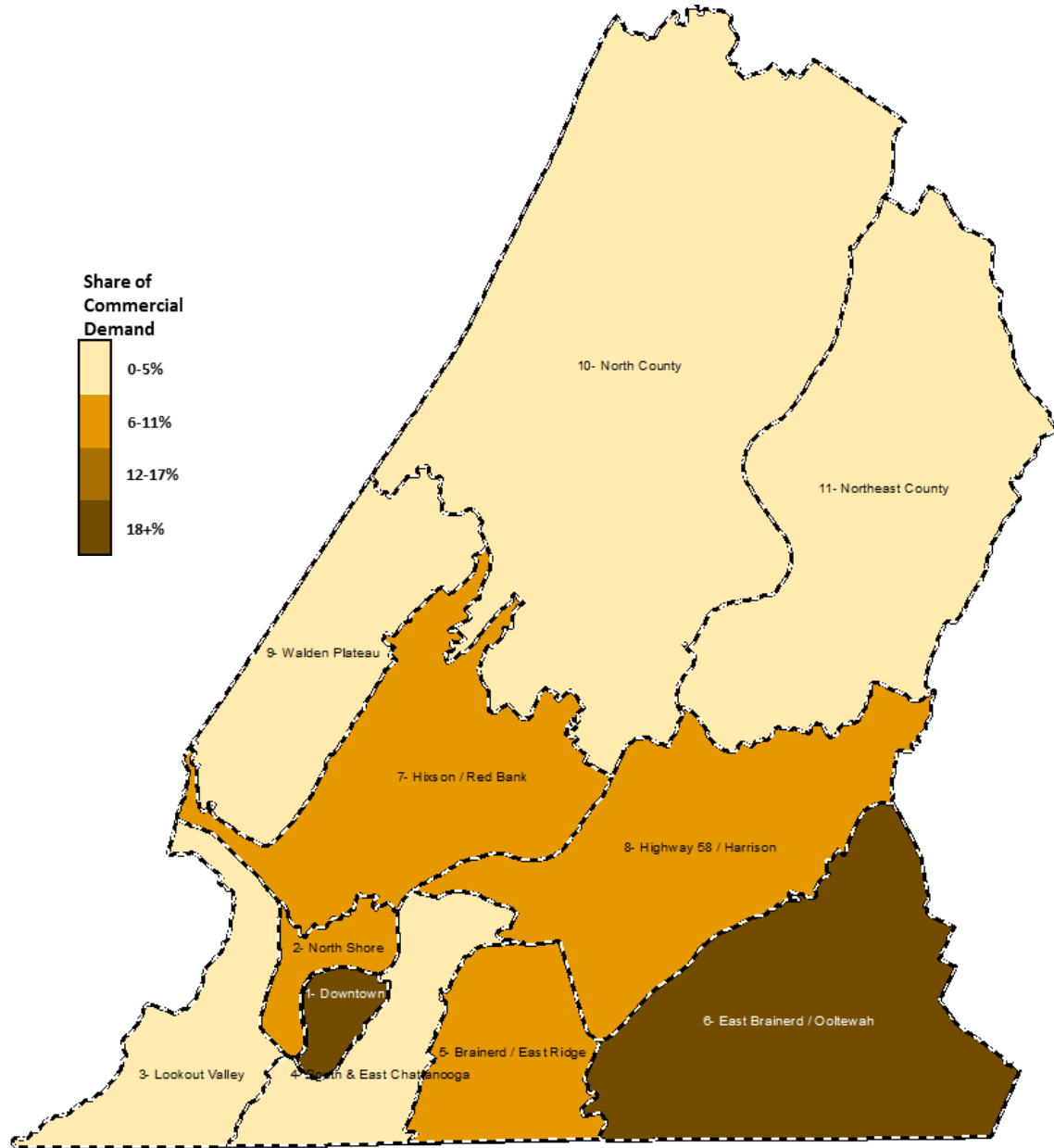
	Current Share of County Office	Current Share of County Retail	Share of Future Commercial Demand	Potential 10- Year Total New Retail (Square Feet)	Potential 10- Year Total New Office (Square Feet)
<b>1- Downtown</b>	50%	10%	<b>40%</b>	48,938	1,635,962
<b>2- North Shore</b>	3%	3%	<b>9%</b>	108,599	269,438
<b>3- Lookout Valley</b>	2%	2%	<b>1%</b>	24,508	0
<b>4- South &amp; East Chattanooga</b>	8%	6%	<b>3%</b>	11,424	97,808
<b>5- Brainerd / East Ridge</b>	13%	19%	<b>7%</b>	59,984	253,937
<b>6- East Brainerd / Ooltewah</b>	9%	22%	<b>18%</b>	314,069	463,756
<b>7- Hixson / Red Bank</b>	6%	22%	<b>11%</b>	260,548	201,108
<b>8- Highway 58 / Harrison</b>	7%	8%	<b>10%</b>	83,688	327,989
<b>9- Walden Plateau</b>	0%	2%	<b>0%</b>	9,140	0
<b>10- North County</b>	0%	4%	<b>2%</b>	68,038	0
<b>11- Northeast County</b>	0%	0%	<b>0%</b>	11,064	0

Source: CoStar and Bleakly Advisory Group

Downtown Chattanooga still serves as the core of the county's office market, with just over half of all office space. The Bleakly distribution anticipates that downtown will continue to capture approximately half of all office demand over the next decade. As downtown employment growth continues, along with expected residential growth and tourism growth, downtown will continue to see improving retailing options. The North Shore area is expected to capture greater than its fair share of commercial growth, as witnessed recently with the addition of the only Whole Foods grocer in the regional market.

As shown below, the commercial growth in the Chattanooga core will be accompanied by corresponding growth in the outlying areas, particularly the East Brainerd/Ooltewah area, and to a somewhat lesser extent, the Hixson, Red Bank, Highway 58 and Harrison areas. This growth will orient itself toward employment centers such as the Volkswagen plant, as well as high-traffic corridors near the Hamilton Place and Northgate Malls. Assuming continued growth in the office-oriented employment sectors, office employment may seek new space in more suburban areas, as well as in the downtown core. Future planning may be necessary to accommodate this growth within a development pattern conducive to current office trends, with unique building types and localized amenities in a compact walkable environment, even in areas outside of downtown.

**Figure 16: Subarea Commercial (Retail and Office) Real Estate Future Demand Distribution**



Source: Bleakly Advisory Group

The map above illustrates the forecast of future commercial demand potential in Hamilton County by subarea. The darker areas are expected to capture the higher levels of demand potential.

## **Subarea Demand Summaries**

### **1-Downtown**

Downtown is expected to continue to provide opportunities for higher-density residential units, as well as retail offerings catering to both residents and tourists.

With over 50% of the county's current and future office inventory, office developers and tenants are expected to continue to seek Downtown locations.

### **2 – North Shore**

The North Shore area has proven very desirable for real estate development.

It is the only subarea that is generating greater than its fair-share of growth in all residential and commercial real estate sectors.

Because of its relative small physical size, North Shore will garner less absolute demand than larger “hot” areas, but will continue to play an essential role in the urban growth of the city of Chattanooga.

### **3 – Lookout Valley**

Because of its proximity to downtown employment, retail and recreation opportunities, Lookout Valley is a logical location for continued stable residential and commercial growth.

While it is not expected to be a leading subarea in growth terms, Lookout Valley will play an important role in providing options for middle income residents to live and shop.

### **4 – South & East Chattanooga**

South & East Chattanooga has developed pockets of neighborhoods attractive to households seeking locations in established historic areas. The historic neighborhood-scale of the built environment in areas such as St. Elmo, along Main Street east and west of Central Avenue and Glass Street should continue to capture much of the growth in this subarea.

This area can also capture growth associated with demand from the University of Tennessee Chattanooga.

### **5 –Brainerd / East Ridge**

The Brainerd/East Ridge area exhibits many of the same issues as other “inner ring” suburbs throughout the nation, such as outmoded retail environments, but also an established transportation network and areas with a quality urban development pattern.

Growth strategies should include repurposing aging commercial corridors and nodes to extend their usefulness. This area can provide unique infill development opportunities distinctive to the local neighborhoods.

### **6 – East Brainerd / Ooltewah**

The East Brainerd/Ooltewah area has been the “favored quarter” of Hamilton County growth over the past few decades.

This area is expected to continue to be the recipient of the greatest amounts of suburban-oriented growth in Hamilton County. Infrastructure improvements, such as the widening of Apison Pike, will help to sustain and enhance the expected growth.

### **7 – Hixson/Red Bank**

Historically, the Hixson/Red Bank area has been a desirable option for growth in Hamilton County. The growth trends in the Hixson area are poised to continue, as the area serves as an important commercial node in the northern section of the county.

Future development opportunities vary widely: from suburban retrofits of auto-oriented commercial corridors to new greenfield development.

### **8 – Highway 58 / Harrison**

Potential development opportunities in the Highway 58/Harrison area will be, in large part, driven by the proximity to jobs at, and near, the Volkswagen assembly plant, as well as access to transportation infrastructure.

Similar to the Hixson area, the form of future development opportunities varies widely.

### **9 – Walden Plateau**

The Walden Plateau area, particularly Signal Mountain, has historically captured an outsized share of Hamilton County's high-end residential growth from households seeking views and lower density development.

The area is positioned to continue to serve as a high-end bedroom community for Hamilton County residents. The households in this area will likely help to drive future commercial growth in other areas, particularly Hixson/Red Bank.

### **10- North County**

The North County area, centered on Soddy Daisy, should continue to provide residential and commercial options for households seeking a more rural lifestyle in Hamilton County.

The availability of land, and access to nearby employment and commercial amenities in areas to the south, position the area as a likely recipient of residential, and associated small-scale commercial growth.

### **11 – Northeast County**

While the northernmost areas of Northeast County will remain largely rural, the areas to the south, particularly along the river, will likely capture outward migrating suburban single-family growth.

Commercial opportunities associated with this residential growth are expected to be largely met in the Highway 58 and Collegedale/Ooltewah areas.

## Mixed Use Opportunity Analysis

The key to successful mixed use development is more than simply a function of providing multiple adjacent real estate uses, but to build places using urban design principles, often known as “placemaking.” Quality mixed use developments combine land uses and public spaces that accentuate opportunities for people to gather, allow for active transportation modes (biking and walking) and provide buildings that shape the outdoor public space.

National examples, including downtown Chattanooga, show that creating walkable “people-friendly” places can enhance real estate opportunities, often creating new opportunities where none previously existed.

However, outside of the historic downtown core and surrounding historic areas, Hamilton County has few examples of real estate development that employs high-quality placemaking principles. Nevertheless, local opportunities exist as case studies across the nation prove that older suburban commercial centers and town centers, along with new town centers, can create special places for people to live, shop, work and recreate—built around the pace of people-powered transportation.

The market for walkable mixed use areas has grown tremendously in the post-recession era. The two largest generational real estate consumer cohorts – millennials and baby boomers – have proven to seek mixed use real estate in large numbers. National estimates conclude that half or more of millennials will choose quality mixed use locations when provided quality options. Many metropolitan areas have planned for mixed use opportunities in their regions, understanding that while many residents and employees will still seek auto-oriented options when choosing a location, a growing portion of real estate consumers place a high value on mixed use and walkability. The key is to provide options for real estate development and choices for consumers. Successful regional planning allows for mixed use opportunities in urban locations, as well as at key nodes in more suburban locations.

### Mixed Use Development’s Fiscal Impact on Local Government Revenues

Assessing the property tax implications of walkable mixed use development versus lower-density suburban development shows that walkable mixed use is an unequivocal winner. Local governments realize a greater return on their infrastructure dollars, particularly on a per acre basis, by encouraging development in compact walkable modes.

For example, a Bleakly Advisory Group analysis of two developments located in the same area of DeKalb County in the Atlanta, Georgia area shines a light on the fiscal advantages of compact walkable development. At Emory Point the developers built vertically integrated uses (apartments over retail) in a walkable format on 7.7 acres. The county collects \$246,000 annually in property taxes on each acre. By comparison, just up the street sits twice as many higher-end apartments next to higher-end retail offerings, including Whole Foods and Starbucks. Although similar in total square footage, this development is sited on 18 acres and built in a suburban auto-oriented format. The county collects \$94,500 per acre annually at this high-performing development. While certainly successful, the auto-oriented development collects 160% less in property taxes per acre

than the walkable mixed use development. Moreover, at a nearby big-box Target store DeKalb collected only \$11,967 per acre on 10 acres.

**Figure 17: Example Mixed Use Fiscal Implications**



In Cherokee County, Georgia, the City of Woodstock has transformed its downtown into one of the most successful walkable town centers in the Southeast. Combined, the city and county collect approximately \$31,000 per acre annually on 16 core acres that include vertically-integrated residential and retail uses, along with single- and multifamily housing. Nearby, a successful outlet mall recently opened on nearly 50 acres. There the city and county collect just under \$6,000 per acre annually. Thus, on a per acre basis, the walkable mixed use town center collects 433% more property taxes than a new auto-oriented outlet mall.

### Mixed Use Development Types

Mixed use development can take many configurations. Many factors, including the current physical environment and the current and future real estate market, will determine which version of mixed use is most appropriate at a given location. In simple terms, mixed use development typically falls into three categories:

- horizontal mixed use blocks
- vertical mixed use buildings
- walkable mixed use district.

**Figure 18: Mixed Use Examples**



**Lower-intensity:  
horizontal  
mixed-use**



**Medium-intensity:  
vertical mixed-use**



**Higher-intensity:  
mixed-use walkable  
neighborhood**

**Horizontal mixed use:** Generally, a collection of buildings each housing one or more types of uses that can be developed in a horizontal fashion to keep construction costs low, sales/leasing simple and development intensity restrained. This lower-intensity mixed use type is typically successful in more suburban locations.

**Vertical mixed use:** A vertical mixed use building contains a mix of residential and commercial. Typically, commercial uses such as shops, restaurants and local-serving offices are located on the ground floor, with residential units (condominiums or apartments) located above.

**Walkable mixed use district:** This mixed use form often harkens to pre-WWII development patterns in which public spaces struck a balance between automobile uses and pedestrian uses and buildings were configured close to the street to the benefit of pedestrians. These districts offer higher-density residential and office development opportunities, as well as appeal to visitors, with retail accessible via wide sidewalks.

### **Hamilton County Mixed Use Opportunities**

Bleakly Advisory Group examined locations in each of the subareas that appear to be suitable for future mixed use development based on an assessment of criteria for the area. The identified areas for potential future mixed use had varying degrees of the criteria currently apparent.

Successful mixed use development requires a blending of several key elements:

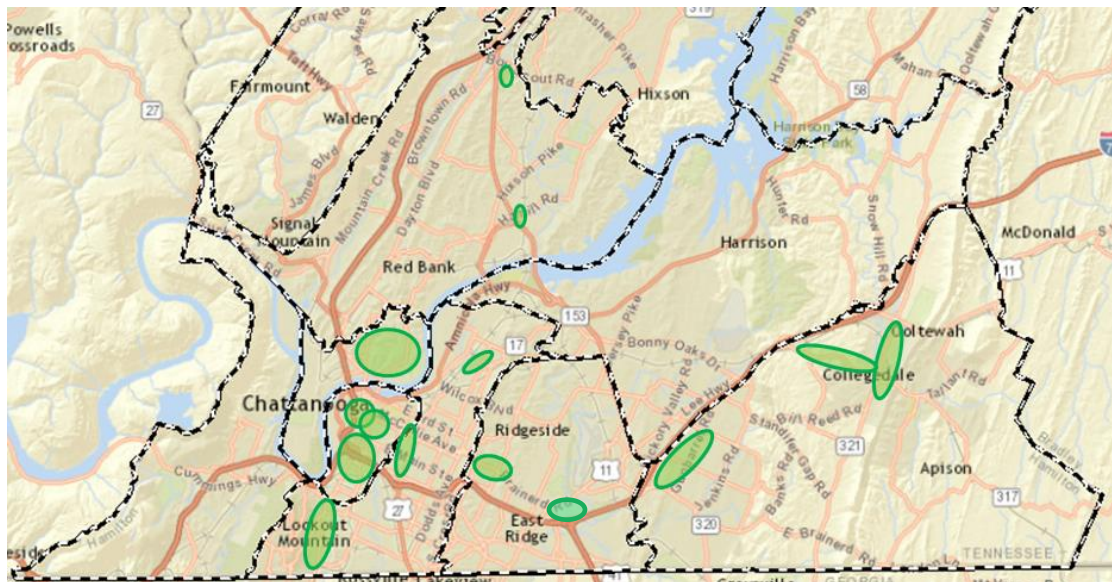
- The presence of on-site or nearby residential and/or employment demand, which will also drive retail demand
- Strong regional transportation access to draw demand from a broad area

- Access to alternative transportation such as transit, bicycle or pedestrian pathways that provide regional access
- Potential for a walkable, pedestrian-oriented core that can become a gathering place/focal point
- Potential for a mix of land uses which are compatible and complementary
- Sufficient area incomes to sustain the commercial components of the mixed use
- Presence of an historic context, unique architecture, or anchor tenants with regional appeal around which to build a successful mixed use district.

At least six of the eleven subareas are suitable to future mixed use development in some form. Other opportunities may arise. The scale and type of mixed use development potential varies widely.

Whereas areas in and near the downtown Chattanooga core will continue to develop mixed use projects of many varieties, other areas nearby and farther out provide opportunities for both redevelopment and greenfield development to meet the needs of the growing demand for walkable mixed use places. The most likely opportunities are highlighted below.

**Figure 19: Potential Mixed Use Locations (shown in green)**



### Downtown

Downtown has earned a national reputation as a model for mixed use urban redevelopment. The area will continue to offer a wide variety of mixed use opportunities.

Prospects to expand the retail base catering to the growing number of full-time residents could be a focus of future mixed use growth. As the core of the region, higher-intensity development downtown should continue to be pursued by private sector developers and supported by public policy.

### **North Shore**

The North Shore area has been a successful mixed use location, offering a somewhat lower-intensity mixed use alternative to downtown, including recent additions of retail and other amenities for local residents. This dynamic should continue to gain momentum as North Shore development opportunities expand into new areas.

Near-term opportunities for continued infill development along key corridors such as Frazier Avenue will continue to attract attention. Continued public sector support of active transportation options (walking and biking) will enhance private sector opportunities.

### **South & East Chattanooga**

South & East Chattanooga has been the beneficiary of revitalization driven by employment growth downtown and by desirable authentically historic neighborhoods.

This trend should continue in areas such as St. Elmo, Glass Street and along east/west corridors such as McCallie Avenue, MLK Drive, and Main Street. Unique mixed use infill opportunities abound in these areas and should continue throughout the next decade.

### **Brainerd / East Ridge**

The East Ridge area is poised to offer longer-term mixed use redevelopment opportunities as developers and end-users seek opportunities east of Missionary Ridge. The proximity and access to downtown will help drive mixed use growth in areas with historical street grids and authentic historical buildings.

Retrofitting of aging retail strip corridors into mixed use locations has potential for success by focusing on creating truly walkable mixed use/mixed income environments. Inserting walkable higher-density residential at the Eastgate Mall location could be a longer-term priority.

### **East Brainerd / Ooltewah**

The opportunities for mixed use development in the East Brainerd/Ooltewah area are substantial due to current settlement and spending patterns, and access to employment and transportation. While the area will continue to attract suburban growth, walkable mixed use nodes could enhance the area's desirable attributes.

The Hamilton Mall area appears to be a prime location for infill walkable mixed use opportunities as it faces future competition from newer nearby retail options.

Ooltewah has begun to see the prototype of a quality mixed use development at Cambridge Square, which could be an example for other key "crossroad locations" in the suburbanizing portions of the county. Over time additional similar opportunities will present themselves at key transportation intersections.

### **Hixson/Red Bank**

The Hixson/Red Bank area is a historically sought-after area of Hamilton County that can remain competitive with new walkable mixed use infill and greenfield development. Because the area is

home to suburban-oriented middle income households, new walkable mixed use improvements will offer variety to the current auto-oriented development pattern.

Given longer-term trends and preferences that favor walkable mixed use development, the added development variety will enhance Hixon/Red Bank's comparative advantages. The area has demographics that could lead to mixed use success but successful development models in the area will need to be established. Potential locations include the Northgate Mall area and the Hillock's Farm development.

## **Terms and Conditions Governing This Research and Report**

Every reasonable effort has been made to ensure that the data developed in this assignment reflect the most accurate and timely information possible and is believed to be reliable.

This consulting assignment was based on estimates, assumptions and other information developed by Bleakly Advisory Group (“BAG”) from its independent research efforts, general industry knowledge and consultations with the client for this assignment and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agents or representatives or any other data source used in preparing or presenting this study.

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