

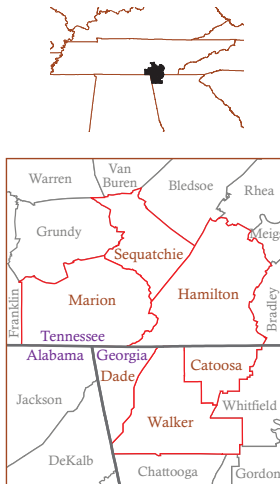


Chattanooga, Tennessee-Georgia

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of January 1, 2009



Housing Market Area



The Chattanooga, Tennessee-Georgia Housing Market Area (HMA) is coterminous with the Chattanooga, TN-GA Metropolitan Statistical Area and is defined as Hamilton, Marion, and Sequatchie Counties in southern Tennessee and Catoosa, Dade, and Walker Counties in northwest Georgia. The HMA, known for being a transportation and shipping hub, is divided by the Tennessee River and lies in the southern portion of the Appalachian Mountains region.

Market Details

- Economic Conditions2
- Population and Households4
- Housing Market Trends5
- Data Profile9

Summary

Economy

The Chattanooga HMA economy is largely based on the government, trade, manufacturing, and education and health services sectors. The new \$1 billion Volkswagen Group of America, Inc., assembly plant will have many positive effects on the local economy during its current construction and when it is complete in 2011. Although nonfarm employment growth has been slow, at 0.4 percent a year since 2000, the new Volkswagen plant will add jobs; as a result, nonfarm employment is expected to increase by an average 1.5 percent a year during the forecast period.

Sales Market

The sales housing market in the HMA is currently soft. An excess supply of homes has caused the sales market vacancy rate to increase from 1.9 percent in 2000 to 2.5 percent as of the current date. Population increases resulting from economic growth during the forecast period are expected to help absorb the excess supply. During the 3-year forecast period, demand is estimated for 6,050 new homes. Some of this demand will be met by the

540 units currently under construction (see Table 1).

Rental Market

The rental housing market in the HMA is currently soft. Although the rental vacancy rate decreased from 9 percent in 2000 to 8 percent as of the current date, a surplus of rental units remains, primarily because of an increased supply of recently constructed apartments. During the 3-year forecast period, demand is estimated for 540 new rental units. Some of this demand will be met by the 170 units currently under construction (see Table 1).

Table 1. Housing Demand in the Chattanooga HMA, 3-Year Forecast, January 1, 2009 to January 1, 2012

	Chattanooga HMA	
	Sales Units	Rental Units
Total Demand	6,050	540
Under Construction	540	170

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of January 1, 2009.

Source: Estimates by analyst

Economic Conditions

During the 1990s, nonfarm employment growth in the Chattanooga HMA was moderate, averaging 1.6 percent, or 3,500 jobs, a year, led by gains in the service-providing sectors. From 2000 to 2002, nonfarm employment decreased by an average of 0.4 percent, or 1,000 jobs, a year. After minimal growth in 2003, nonfarm employment from 2004 to 2007 increased by an average annual rate of 1 percent, or 2,400 jobs. In 2008, the number of nonfarm jobs declined from 247,500 to 245,800, a decrease of nearly 1 percent compared with the number recorded in 2007. The current growth rate is the lowest it has been since 2001, when employment decreased by 1 percent compared with employment levels in 2000. At 5.7 percent, the current unemployment rate is substantially higher than the 4-percent rate recorded during 2007 and is the highest it has been in this decade. See Figure 1 for trends in labor force, resident employment, and unemployment rate in the HMA from 1990 to 2008.

Employment growth decreased during 2008 due to a combination of significant job losses in the goods-producing sectors and stagnant growth in the service-providing sectors compared with employment levels recorded in

those sectors during previous years. The largest number of job losses occurred in the manufacturing sector (see Table 2). After losing 600 jobs in 2007, the sector lost an additional 1,600 jobs in 2008, primarily in the food and textile manufacturing industries. The second largest number of job losses—1,100—occurred in the transportation and utilities sector. This sector is more sensitive to the condition of the national economy and also suffered job losses during the recession earlier in the decade. Despite overall losses, some employment sectors grew in 2008. The education and health services sector led all sectors in growth with the addition of 800 jobs. This sector has grown steadily since 2000 and has increased by an average annual rate of 1,200 jobs due to the presence of several regional hospitals and schools.

Although the education and health services sector accounts for 12 percent of total nonfarm employment in the HMA, the three largest sectors are trade, government, and manufacturing; each accounts for approximately 14 percent of nonfarm employment (see Figure 2). Although manufacturing continues to be a leading sector in the local economy, employment

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Chattanooga HMA, 1990 to 2008



Source: U.S. Bureau of Labor Statistics

in the sector has decreased by a total of 27 percent since 1990, when manufacturing was the largest sector and accounted for 22 percent of total nonfarm employment. Since 1990, the largest amount of growth has occurred in the transportation and utilities sector. Most of this growth has resulted from an increase in truck transportation due to the intersection of several interstate highways in the Chattanooga HMA.

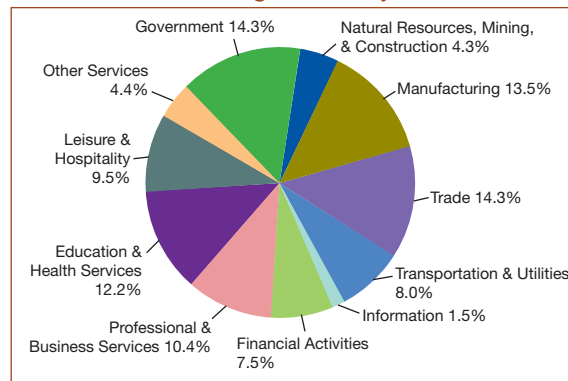
Table 2. 12-Month Average Employment in the Chattanooga HMA, by Sector

	12 Months Ending December 2007	12 Months Ending December 2008	Percent Change
Total Nonfarm Employment	247,500	245,800	- 0.7
Goods Producing	45,800	43,900	- 4.1
Natural Resources, Mining, & Construction	11,000	10,600	- 3.6
Manufacturing	34,900	33,300	- 4.6
Service Providing	201,700	202,000	0.1
Wholesale & Retail Trade	35,700	35,100	- 1.7
Transportation & Utilities	20,800	19,700	- 5.3
Information	3,700	3,800	2.7
Financial Activities	18,600	18,500	- 0.5
Professional & Business Services	24,800	25,500	2.8
Education & Health Services	29,200	30,000	2.7
Leisure & Hospitality	23,200	23,300	0.4
Other Services	10,900	10,900	0.0
Government	34,900	35,200	0.9

Notes: Based on 12-month averages through December 2007 and December 2008. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Figure 2. Current Employment in the Chattanooga HMA, by Sector



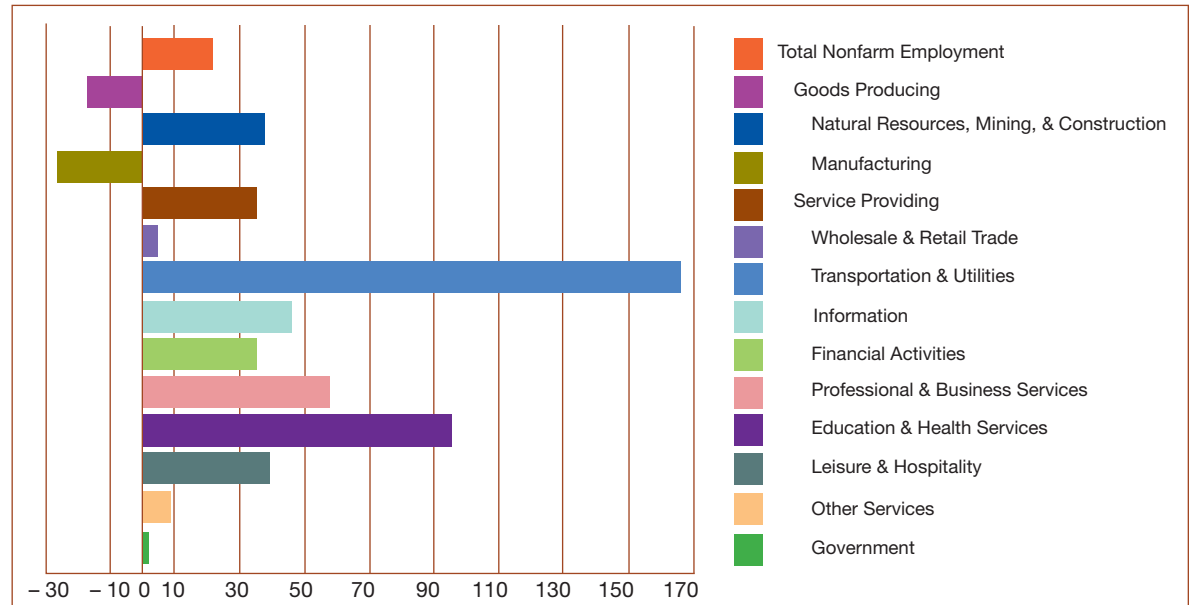
Note: Based on 12-month averages through September 2008.

Source: U.S. Bureau of Labor Statistics

See Figure 3 for the percentage of change in nonfarm employment sectors in the HMA from 1990 to the current date.

The economy of the HMA is expected to expand during the next several years due to the new \$1 billion Volkswagen Group of America, Inc., assembly plant currently under construction at the Enterprise South Industrial Park in Hamilton County. The plant will yield approximately 2,000 direct manufacturing sector jobs and an estimated 9,500 indirect jobs spread across many employment sectors, according to an August 2008 study by the University of Tennessee. Volkswagen will begin hiring in the second half of 2009 and will begin production in 2011. The HMA's leading employer, BlueCross BlueShield of Tennessee, is constructing a new \$210 million headquarters building in downtown Chattanooga that is scheduled for completion by mid-2009. Currently, the company is not planning to hire additional employees for the facility. See Table 3 for a list of the major employers in the HMA.

During the first year of the 3-year forecast period, employment is expected to remain nearly unchanged as continued job losses are offset by preparations for and hiring at the new Volkswagen assembly plant. For the second and third years of the forecast period, the HMA is expected to have positive employment growth. As production at the Volkswagen plant begins in the third year of the forecast period, employment in the HMA is estimated to grow by more than 2 percent.

Figure 3. Sector Growth in the Chattanooga HMA, Percentage Change, 1990 to Current

Note: Current is based on 12-month averages through December 2008.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Chattanooga HMA

Name of Employer	Employment Sector	Number of Employees
BlueCross BlueShield of Tennessee, Inc.	Financial Activities	4,502
Tennessee Valley Authority	Government	3,869
Erlanger Health System	Education & Health Services	3,410
McKee Foods Corporation	Manufacturing	3,200
UnumProvident Corporation	Financial Activities	2,800
Maytag Cleveland Cooking Products	Manufacturing	2,500
Memorial Health Care System	Education & Health Services	2,152
Nissan North America, Inc.	Manufacturing	2,000
CIGNA HealthCare	Financial Activities	1,850
Pilgrim's Pride Corporation	Manufacturing	1,839

Note: Excludes local government.

Source: Chattanooga Area Chamber of Commerce

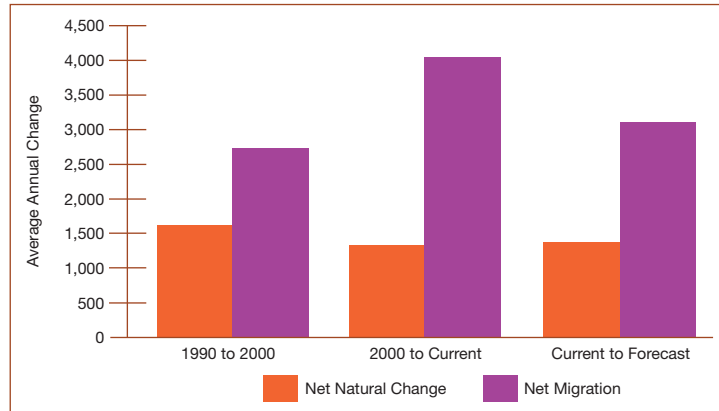
Population and Households

The Chattanooga HMA is the fourth largest metropolitan area in Tennessee, with an estimated population of 523,800 as of January 1, 2009 (see Table DP-1 at the end of this report). During the 1990s, the population grew by an average of 1 percent, or 4,325, a year. From

2000 to the current date, the population grew by a slightly higher rate of 1.1 percent, or 5,400, a year. Although the rate of population growth did not change much between these two periods, the components of growth did. Net natural change (resident births minus resident deaths) decreased

from an average annual rate of 1,600 people during the 1990s to 1,350 people since 2000, while net in-migration increased from an average

Figure 4. Components of Population Change in the Chattanooga HMA, 1990 to Forecast



Sources: 1990 and 2000–1990 Census and 2000 Census; current and forecast—estimates by analyst

Figure 5. Population and Household Growth in the Chattanooga HMA, 1990 to Forecast



Sources: 1990 and 2000–1990 Census and 2000 Census; current and forecast—estimates by analyst

annual rate of 2,725 to 4,050 people. According to the Census Bureau, net in-migration averaged between 3,925 and 4,575 people from 2001 to 2005 before peaking at 6,025 people in 2006. During the past 2 years, net in-migration decreased to an estimated average of 3,275 people a year due to a slowdown in job creation. Figure 4 shows components of population change in the HMA from 1990 to the forecast date. The average annual number of new households has decreased from 2,325 during the 1990s to 2,125 since 2000.

During the forecast period, the population of the HMA and the number of households are expected to increase by an average of 4,575 and 1,975 a year, respectively, as employment increases. Growth is expected to be stronger during the second and third years of the forecast period, because expected employment growth will result in increased net in-migration to the HMA. By October 1, 2011, the HMA will have an estimated population of 537,500 and an estimated 214,000 households. See Figure 5 for population and household growth in the HMA from 1990 to the forecast date.

Housing Market Trends

Sales Market

From 1990 to 2000, the homeownership rate in the Chattanooga HMA increased from 68 to 70 percent. It is estimated that, from the early 2000s to 2006, the rate temporarily rose even higher due to a significant volume of home sales recorded during the period before returning

to 70 percent as of the current date. Figure 6 illustrates the number of households by tenure in the HMA from 1990 to the current date.

Current sales housing market conditions are soft in the HMA. An excess inventory of unsold homes in the

Housing Market Trends
Sales Market *Continued*

local sales market can be attributed primarily to a decline in demand resulting from increased credit restrictions. According to the Chattanooga Association of REALTORS®, during 2008, the number of existing homes sold totaled 6,175, a 17-percent decrease compared with the approximately 7,425 existing homes sold during 2007. Despite the decline in sales volume during the period, the median sales price of an existing home increased by 5 percent, from \$130,000 to \$136,600. According to Global Insight, Inc., the median price of a new home decreased by 9 percent, from \$145,200 as of January 1, 2008, to \$131,900 as of January 1, 2009.

During the 1990s, nearly all multifamily units built in the Chattanooga HMA

were rental units; however, since 2000, an increasing number of units have been built as for-sale condominiums. In 2000, condominiums accounted for approximately 1 percent of all multifamily units permitted compared with a peak of 18 percent in 2007. Most of the newly built condominiums and those converted from rental apartment units are concentrated around downtown Chattanooga. According to Reis, Inc., 310 condominium units were completed in Chattanooga during 2008 and approximately 110 additional units are expected to be completed in 2009, including River Point, with 29 units, and Village at Frawley Lake, with 83 units. The Chattanooga Association of REALTORS® reports that condominium sales increased from 100 units in the fourth quarter of 2007 to 120 units in the fourth quarter of 2008. During this same period, the median price of a condominium increased by 44 percent, from \$159,500 to \$229,200.

After peaking in 2005, the pace of home construction has continued to decrease in response to soft sales market conditions. Single-family homebuilding activity, as measured by the number of building permits issued, decreased from 2,125 homes permitted during 2007 to 1,075 homes permitted during 2008. The number of single-family homes permitted in 2008 is lower than the number of homes permitted in 1990 (see Figure 7).

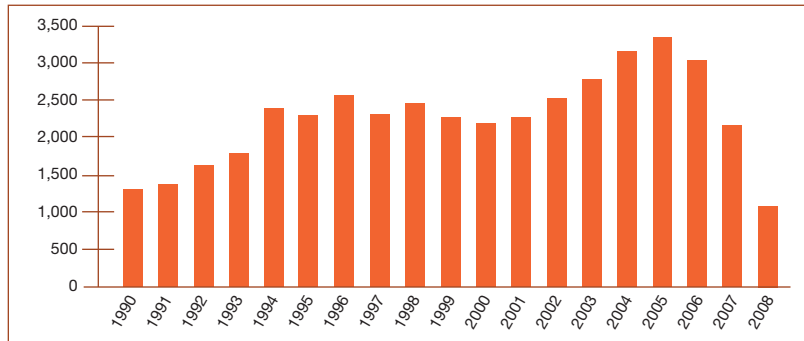
During the first year of the 3-year forecast period, sales housing market conditions are expected to remain soft. As employment and population increase in the second year of the forecast period, the sales market should begin moving toward more balanced conditions. Current and anticipated sales housing market conditions will support estimated

Figure 6. Number of Households by Tenure in the Chattanooga HMA, 1990 to Current



Sources: 1990 and 2000—1990 Census and 2000 Census; current—estimates by analyst

Figure 7. Single-Family Building Permits Issued in the Chattanooga HMA, 1990 to 2008



Notes: Includes only single-family units. Includes data through December 2008.
Source: U.S. Census Bureau, Building Permits Survey

demand for 6,050 new sales units. A portion of this demand will be met by the 540 homes currently under construction and expected to be completed during the first year

of the forecast period (see Table 1). Demand for new market-rate sales housing is expected to be strongest in the \$125,000-to-\$174,999 price range (see Table 4).

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Chattanooga HMA, January 1, 2009 to January 1, 2012

Price Range (\$)		Units of Demand	Percent of Total
From	To		
75,000	99,999	300	5.0
100,000	124,999	1,025	16.9
125,000	174,999	1,225	20.2
175,000	224,999	1,025	16.9
225,000	274,999	850	14.0
275,000	349,999	750	12.4
350,000	424,999	600	9.9
425,000	499,999	180	3.0
500,000	and higher	95	1.6

Source: Estimates by analyst

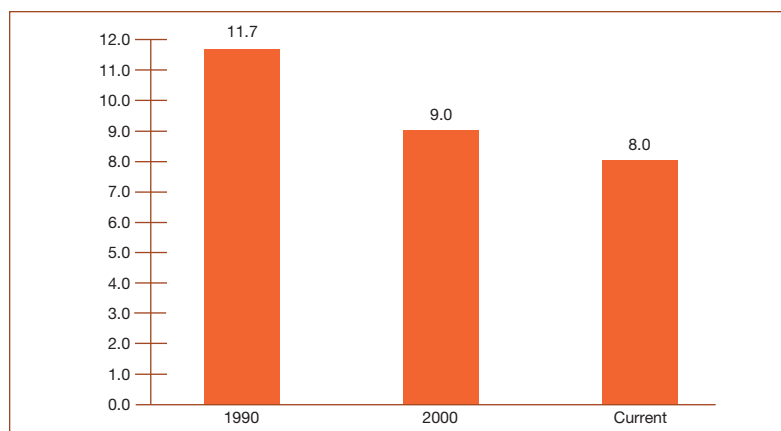
Rental Market

In 2000, rental housing market conditions in the Chattanooga HMA were soft, with an average vacancy rate of 9 percent. Although market conditions have tightened slightly since then, they remain soft, with a current vacancy rate of 8 percent (see Figure 8). In 2001, multifamily construction activity, as measured by the number of units permitted, reached a decade-high peak of 630 multifamily units. From

2002 to 2006, activity decreased to an average annual level of 440 units permitted. The number of multifamily units permitted increased to 570 in 2007 and then declined to 170 in 2008, the lowest annual number of multifamily units permitted since 1996, as builders responded to softer market conditions. See Figure 9 for the number of multifamily building permits issued in the HMA from 1990 to 2008.

Current and anticipated rental housing market conditions will support estimated demand for 540 new rental units during the 3-year forecast period. Most of the demand for new rental housing will be concentrated in and around the city of Chattanooga. The 170 units currently under construction, with completion expected during the first year of the forecast period, will meet a portion of this demand (see Table 1). Table 5 shows estimated demand for new market-rate rental housing in the HMA by number of bedrooms and rent level during the forecast period.

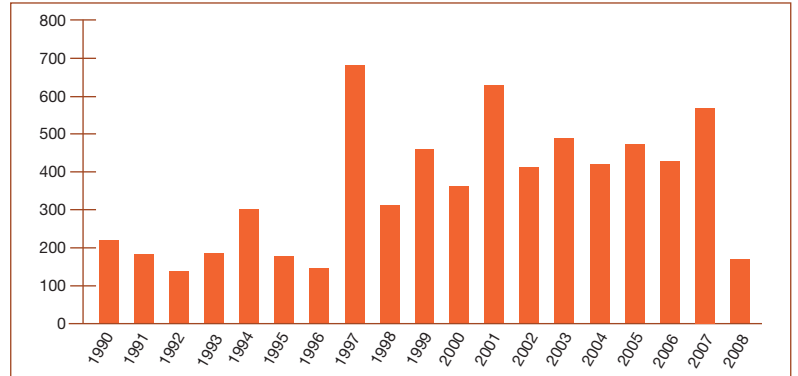
Figure 8. Rental Vacancy Rates in the Chattanooga HMA, 1990 to Current



Sources: 1990 and 2000—1990 Census and 2000 Census; current—estimates by analyst

Housing Market Trends
 Rental Market *Continued*

Figure 9. Multifamily Building Permits Issued in the Chattanooga HMA, 1990 to 2008



Notes: Includes all multifamily units in structures with two or more units. Includes data through December 2008.

Source: U.S. Census Bureau, Building Permits Survey

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Chattanooga HMA, January 1, 2009 to January 1, 2012

One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
550	180	650	230	800	130
600	150	700	190	850	120
650	140	750	170	900	100
700	130	800	150	950	90
750	110	850	130	1,000	75
800	90	900	110	1,050	65
850	75	950	95	1,100	60
950	60	1,050	75	1,200	45
1,050	50	1,150	50	1,300	30
1,150	40	1,250	35	1,400	20
and higher		and higher		and higher	

Notes: Distribution above is noncumulative. Demand shown at any rent represents demand at that level and higher.

Source: Estimates by analyst

Data Profile

Table DP-1. Chattanooga HMA Data Profile, 1990 to Current

	1990	2000	Current	Average Annual Change (%)	
				1990 to 2000	2000 to Current
Total Resident Employment	202,893	238,995	250,100	1.7	0.6
Unemployment Rate (%)	4.6	3.4	5.7		
Nonfarm Employment	203,300	238,400	245,800	1.6	0.4
Total Population	433,210	476,531	523,800	1.0	1.1
Total Households	166,404	189,607	208,100	1.3	1.1
Owner Households	113,889	132,752	146,100	1.5	1.1
Percent Owner (%)	68.4	70.0	70.2		
Renter Households	52,515	56,855	62,000	0.8	1.0
Percent Renter (%)	31.6	30.0	29.8		
Total Housing Units	181,276	205,343	231,650	1.3	1.4
Owner Vacancy Rate (%)	1.9	1.9	2.5		
Rental Vacancy Rate (%)	11.7	9.0	8.0		
Median Family Income	\$29,700	\$44,500	\$53,100	4.1	2.0

Notes: Median family income data are for 1989, 1999, and 2008. Employment data represent annual averages for 1990, 2000, and the 12 months through December 2008.

Sources: Estimates by analyst; U.S. Census Bureau; U.S. Department of Housing and Urban Development

Data Definitions and Sources

1990: 4/1/1990—U.S. Decennial Census

2000: 4/1/2000—U.S. Decennial Census

Current date: 1/1/2009—Analyst's estimates

Forecast period: 1/1/2009–1/1/2012—Analyst's estimates

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_ChattanoogaTN-GA_09.pdf.

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to www.huduser.org/publications/econdev/mkt_analysis.html.