

HUD PD&R Housing Market Profiles

Chattanooga, Tennessee-Georgia



Chattanooga, Tennessee

By Steve Walker | As of July 1, 2021

Quick Facts About Chattanooga

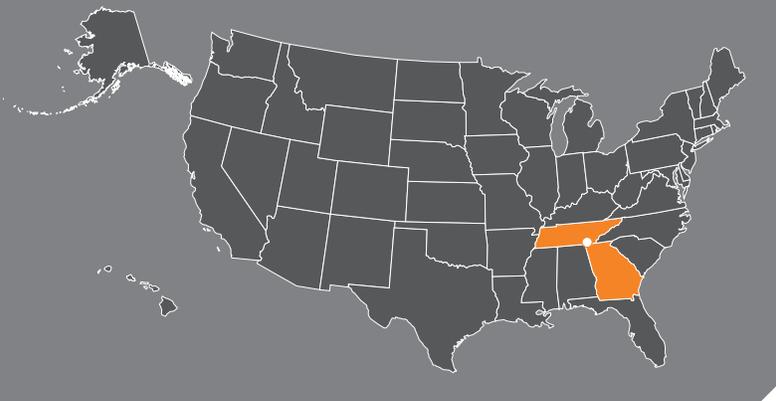
- Current sales market conditions: balanced
- Current rental market conditions: balanced
- The Chattanooga metropolitan area is in the Cumberland Plateau between the ridge and valley portions of the Appalachian Mountains and is a popular location for outdoor recreation. Ruby Falls, a tourist attraction with an underground waterfall located in Lookout Mountain, draws visitors to the area and is one of the deepest commercial caverns in the United States at more than 1,000 feet underground.

Overview

The Chattanooga, Tennessee-Georgia Metropolitan Statistical Area (hereafter, Chattanooga metropolitan area) is in the southeast area of Tennessee and the northwest area of Georgia and is the fourth largest metropolitan area in Tennessee. The Chattanooga metropolitan area consists of Hamilton, Marion, and Sequatchie Counties in southern Tennessee and Catoosa, Dade, and Walker Counties in northern Georgia. The city of Chattanooga, located on the Tennessee River, is the largest municipality in the Chattanooga metropolitan area and the fourth most populous city in Tennessee.

- As of July 1, 2021, the population of the Chattanooga metropolitan area is estimated at 574,000.
- Population growth averaged 3,775 people, or 0.7 percent, annually from 2010 to 2015. Net in-migration accounted for 2,775 people annually, or 74 percent of the growth, whereas net natural change (resident births minus resident deaths) accounted for 1,000 people annually, or 26 percent (Census Bureau population estimates as of July 1). From 2015 to the current, population growth averaged 4,375 people, or 0.8 percent, annually. Net in-migration accounted for 4,150 people, or 95 percent of the growth, whereas

continued on page 2



continued from page 1

- net natural change accounted for 225 people annually, or 5 percent (current estimates by the analyst).
- Individuals age 60 years and older represent an increasing share of the population in the Chattanooga metropolitan area. This age cohort represented 21 percent of the population in 2010 and accounted for 25 percent of the total population in 2019 (American Community Survey [ACS] 1-year data).

- Hamilton County, home to the city of Chattanooga, accounted for 82 percent of population growth in the metropolitan area from 2010 to 2019, followed by Catoosa County with 12 percent and Sequatchie and Walker Counties with 3 percent each. Marion County accounted for 1 percent of the population growth, and the population in Dade County declined during the period.

Economic Conditions

Economic conditions in the Chattanooga metropolitan area, before the COVID-19 pandemic, had strengthened for 10 consecutive years following the Great Recession. Nonfarm payrolls increased an average of 1.7 percent annually from 2012 through 2019, surpassing the prerecession peak in 2016. During this period, nonfarm payroll growth in the metropolitan area was the same rate as that of Tennessee but outpaced that of the nation, which averaged 1.5 percent a year. When the COVID-19 pandemic began, economic conditions in the Chattanooga metropolitan area weakened significantly in a short period. From March 2020 through April 2020, the metropolitan area lost 30,600 jobs, or 11.4 percent. Through June 2021, 23,800 jobs have been regained, making up 78 percent of jobs lost (not seasonally adjusted). Year over year, nonfarm payrolls increased to an average of 260,100 jobs during the second quarter of 2021, an increase of 15,800 jobs, or 6.5 percent. By comparison, nonfarm payrolls for Tennessee and the nation increased 7.6 and 8.5 percent, respectively, during the second quarter of 2021.

During the second quarter of 2021 —

- The leisure and hospitality sector contributed the most to the overall increase in nonfarm payrolls, up by 4,600 jobs, or 21.7 percent, partially due to increasing allowed capacity at full-service restaurants and the reopening of tourist attractions.
- The manufacturing sector increased by 3,000 jobs, or 9.5 percent, and accounted for the second highest increase in nonfarm payrolls. The metropolitan area is home to the only Volkswagen manufacturing facility in the United States, which currently has 3,800 employees and announced in the first quarter of 2019 that Chattanooga would become the North American hub for its electric vehicle manufacturing.
- The government sector, the only sector to lose jobs, decreased by 1,500 jobs, or 4.0 percent, mostly due to losses in the local government subsector, which lost tax revenue because of the COVID-19 recession.

continued on page 3

In the Chattanooga metropolitan area, 10 out of 11 sectors gained jobs in the second quarter of 2021.

	3 Months Ending		Year-Over-Year Change	
	June 2020 (Thousands)	June 2021 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	244.3	260.1	15.8	6.5
Goods-Producing Sectors	42.5	45.8	3.3	7.8
Mining, Logging, & Construction	10.9	11.3	0.4	3.7
Manufacturing	31.6	34.6	3.0	9.5
Service-Providing Sectors	201.8	214.2	12.4	6.1
Wholesale & Retail Trade	33.7	34.7	1.0	3.0
Transportation & Utilities	16.9	18.6	1.7	10.1
Information	2.3	2.6	0.3	13.0
Financial Activities	22.3	22.5	0.2	0.9
Professional & Business Services	25.4	28.1	2.7	10.6
Education & Health Services	31.7	34.0	2.3	7.3
Leisure & Hospitality	21.2	25.8	4.6	21.7
Other Services	11.2	12.3	1.1	9.8
Government	37.1	35.6	-1.5	-4.0
Unemployment Rate	10.4%	4.4%		

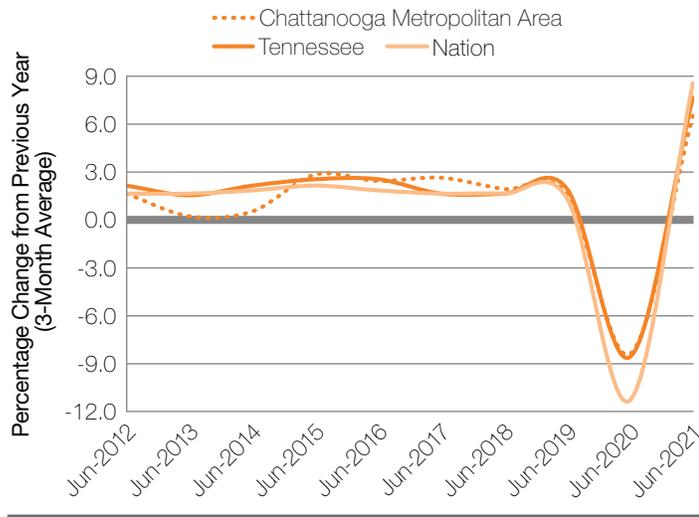
Note: Numbers may not add to totals due to rounding.
Source: U.S. Bureau of Labor Statistics



continued from page 2

- The unemployment rate in the metropolitan area decreased to 4.4 percent, down from 10.4 percent a year earlier. The unemployment rate peaked at 14.1 percent during April 2020, at the height of pandemic-related business restrictions (not seasonally adjusted). Since then, the monthly unemployment rate has declined to 3.8 percent during June 2021.

The number of jobs in the Chattanooga metropolitan area grew during the second quarter of 2021 at a slower pace than that of Tennessee and the nation.



Source: U.S. Bureau of Labor Statistics

Strong job growth in the manufacturing sector is expected to continue in the metropolitan area in the near term. NOVONIX Limited, a manufacturer of high-performance anode material for the lithium battery market, announced plans in the second quarter of 2021 to expand its operations in Hamilton County and add approximately 290 positions in the next year. Sesé Industrial Services, a manufacturer of automotive axles, announced in 2021 that it was building a new \$42 million facility expected to bring 240 new jobs by 2022. The addition of electric vehicle production at the Volkswagen plant in Chattanooga is also expected to add manufacturing jobs in 2022. Located at the cross section of three major interstates—Interstates 75, 24, and 59—manufacturers in the Chattanooga metropolitan area can take advantage of one-day shipping to one-third of U.S. consumer markets.

Largest Employers in the Chattanooga Metropolitan Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
BlueCross BlueShield of Tennessee	Financial Activities	4,855
Erlanger Health System	Education & Health Services	4,852
CHI Memorial	Education & Health Services	3,549

Note: Excludes local school districts.

Source: Chattanooga Chamber of Commerce

Sales Market Conditions

The sales housing market in the Chattanooga metropolitan area is currently balanced, with an estimated vacancy rate of 1.4 percent, down from 2.9 percent in 2010, when the market was soft. A limited supply of for-sale inventory, in conjunction with strong population and economic growth before the pandemic, resulted in an increase in the for-sale housing demand and contributed to a decline in the vacancy rate. As of May 2021, the rate of seriously delinquent home loans and real estate owned (REO) properties in the metropolitan area had increased to 2.8 percent from a year ago, compared with rates of 2.9 and 3.3 percent for Tennessee and the nation, respectively (CoreLogic, Inc.). The rate in the metropolitan area is up from 2.0 percent in May 2020 but below the recent peak of 4.0 percent in the fall of 2020. The average sales price of an REO home in the metropolitan area was \$152,500 during the 12 months ending June 2021, a 35-percent increase from the previous 12 months, compared with \$250,900 for a regular resale, a 15-percent increase from the previous 12 months (Zonda). REO home sales prices have risen an average of 5 percent annually from a recent low of \$94,450 during late 2011.

During the 12 months ending June 2021—

- New home sales totaled 650, down 37 percent from the 1,025 sales a year ago. The average sales price for a new home was \$348,900, up 4 percent from a year earlier.
- Existing home sales totaled 12,050, up 22 percent from the 9,900 homes sold during the previous 12-month period.
- The average sales price for an existing home was \$249,000, an increase of 16 percent from \$214,000 a year earlier. The current existing home sales price is 73 percent higher than the recent low in early 2010 of \$144,200.
- REO sales accounted for 2 percent of existing home sales, down from 4 percent a year earlier and from a peak of 32 percent in 2010.

New home construction, as measured by the number of single-family homes permitted, generally rose each year from 2012 through 2018 in response to fewer available existing homes for sale and low home mortgage interest rates.

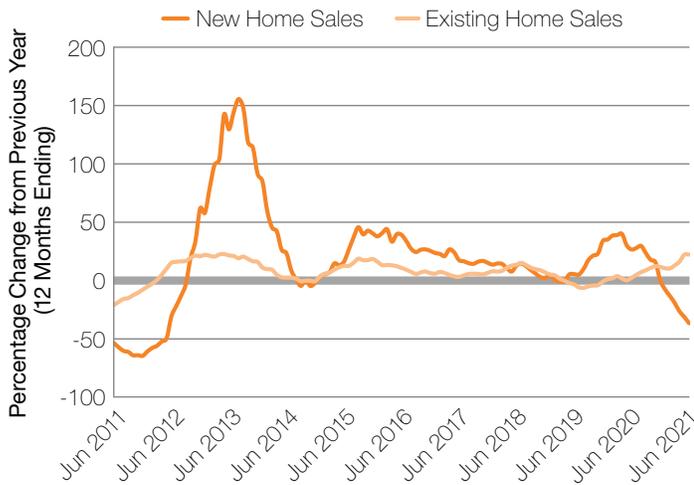
continued on page 4



continued from page 3

- During the 12 months ending June 2021, 2,050 single-family homes were permitted, up 26 percent from the 1,625 homes permitted during the 12 months ending June 2020.
- Single-family home construction activity averaged 1,550 homes annually from 2012 through 2018. Construction activity slowed in 2019, but an average of 2,050 homes were permitted annually from 2019 through 2020.

New home sales in the Chattanooga metropolitan area declined in the past year, but existing home sales increased during most of the period.



Note: Prices are for single-family homes, townhomes, and condominiums. Source: Zonda

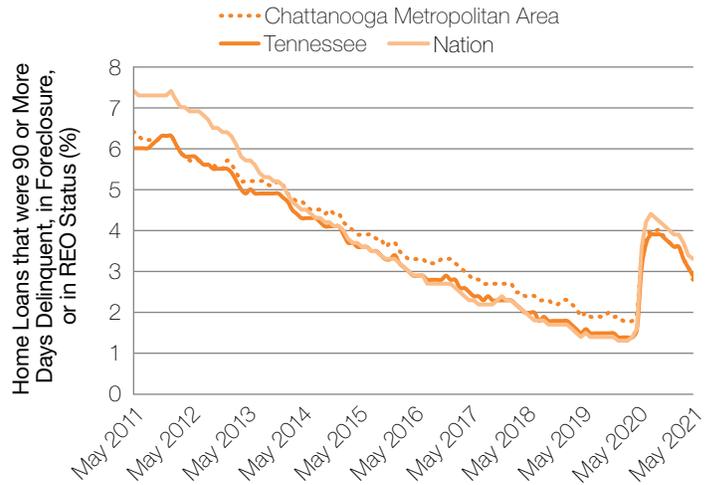
The rate of price growth for existing homes accelerated in the Chattanooga metropolitan area during the past year.



Note: Prices are for single-family homes, townhomes, and condominiums. Source: Zonda

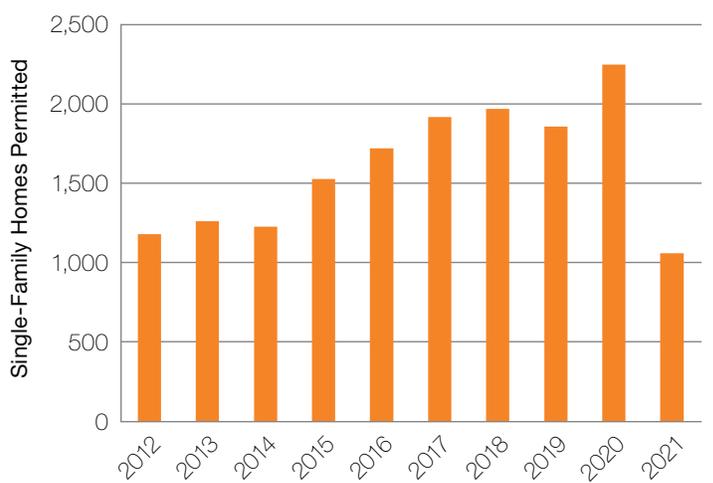
- In the city of Fort Oglethorpe, Georgia, D.R. Horton, Inc. has 10 lots for sale and 54 homes completed in the Lakeshore Cove subdivision near Interstate 75. Homes in the development range from 1,750 to 3,450 square feet, and list prices range from \$278,900 to \$354,900.

The rate of seriously delinquent home loans and REO properties in the Chattanooga metropolitan area has declined steadily since peaking in the fall of 2020.



REO = real estate owned. Source: CoreLogic, Inc.

The number of single-family homes permitted in the Chattanooga metropolitan area has generally risen each year since 2012.



Note: Includes preliminary data from January 2021 through June 2021. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst



Rental Market Conditions

As of July 1, 2021, overall rental housing market conditions in the Chattanooga metropolitan area are balanced, with an estimated 7.9-percent vacancy rate for all rental units (including single-family homes, townhomes, mobile homes, and apartments). The rate is down from a 10.0-percent vacancy rate in 2010, when market conditions were soft. Approximately 38 percent of renter households in the metropolitan area live in single-family homes, 18 percent live in buildings with two to four units, 36 percent live in multifamily buildings with five or more units that are typically apartments, and the remaining 8 percent live in other housing types, including mobile homes (2019 ACS 1-year estimates).

During the second quarter of 2021 —

- The apartment market in the Chattanooga metropolitan area was balanced, with a vacancy rate of 6.5 percent, up from 6.2 percent a year earlier. The apartment vacancy rate has gradually increased from a low of 4.1 percent in the second quarter of 2016 (Moody's Analytics REIS).
- The average rent for apartments in the Chattanooga metropolitan area was \$901, an increase of 3 percent from \$877 during the second quarter of 2020, slightly lower than increases averaging approximately 5 percent a year from 2015 through 2019.
- By bedroom size, average rents in the Chattanooga metropolitan area during the second quarter of 2021 were \$664, \$795, \$979, and \$1,177 for studio, one-bedroom, two-

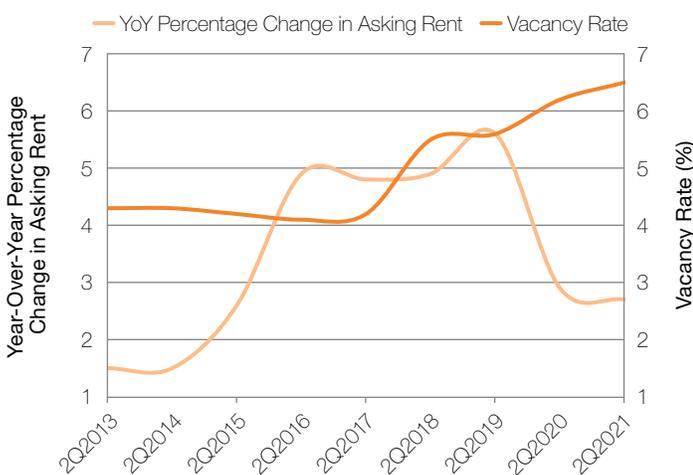
bedroom, and three-bedroom units, representing respective increases of 3, 2, 4, and 5 percent from a year ago.

- The Moody's Analytics REIS-defined North Chattanooga market area, which includes the cities of Soddy Daisy and Red Bank, had the lowest vacancy rate of 4.5 percent, down from 6.3 percent a year ago. During the second quarter of 2021, the average rent was \$897, an increase of 3 percent from a year ago.

Multifamily construction activity, as measured by the number of units permitted, fluctuated from a recent peak of approximately 1,125 units permitted in 2014 to 260 units permitted in 2018.

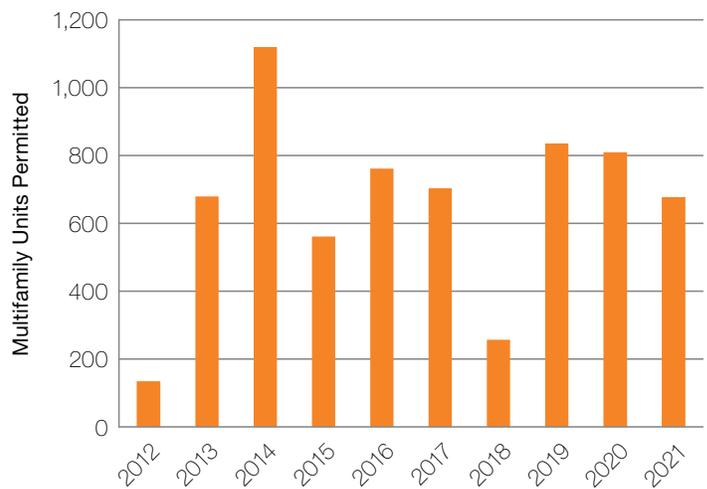
- During the 12 months ending June 2021, 1,000 multifamily units were permitted in the Chattanooga metropolitan area, up from 390 units permitted during the 12 months ending June 2020.
- An average of 770 multifamily units were permitted each year from 2013 through 2017, higher than the average of 550 units permitted each year from 2018 through 2019.
- An estimated 650 units are currently under construction in the metropolitan area, and approximately 90 percent of them are in Hamilton County.
- Riverwalk at Cameron Harbor is a newly built 249-unit apartment property in downtown Chattanooga, completed in the second quarter of 2020. The asking rents for studio, one-bedroom, and two-bedroom apartment units start at \$1,050, \$1,350, and \$1,825, respectively.

The average rent and vacancy rates in the Chattanooga metropolitan area have increased since 2017 as new apartments entered the market.



2Q = second quarter. YoY = year-over-year. Source: Moody's Analytics REIS

In the Chattanooga metropolitan area, 2014 was a peak year for rental permitting activity.



Note: Includes preliminary data from January 2021 through June 2021. Source: U.S. Census Bureau, Building Permits Survey, with estimates by the analyst

