

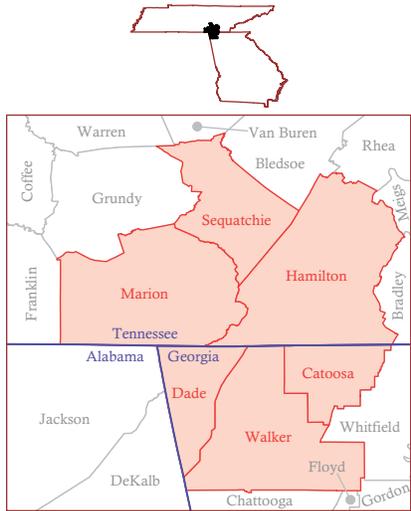


Chattanooga, Tennessee-Georgia

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of November 1, 2014



Housing Market Area



The Chattanooga Housing Market Area (HMA) is conterminous with the Chattanooga, TN-GA Metropolitan Statistical Area comprising Marion, Hamilton, and Sequatchie Counties in southern Tennessee and Catoosa, Dade, and Walker Counties in northern Georgia. The principal city, Chattanooga, in Hamilton County, is bisected by the Tennessee River. The HMA is a regional tourist destination; a hub for healthcare services to the southern Tennessee, northern Georgia, and northeastern Alabama area; and is home to The University of Tennessee at Chattanooga (UTC).

Market Details

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Summary

Economy

Economic conditions began to improve in the Chattanooga HMA in 2010, after 2 years of job losses. During the 12 months ending October 2014, non-farm payrolls averaged 240,200 jobs, up 2,100 jobs, or 0.9 percent, from a year earlier, but remain 6,300 jobs less than the prerecession peak of 246,500 jobs in 2007. During the next 3 years, nonfarm payrolls are expected to increase by 3,275 jobs, or 1.4 percent, annually. Employment in the manufacturing sector has been declining in the HMA since 2000, but it is expected to contribute to job gains with 2,000 new jobs at the Volkswagen of America, Inc. manufacturing plant in the city of Chattanooga during the next 3 years.

Sales Market

Sales housing market conditions in the HMA are currently soft but improving, with an estimated vacancy rate of 2.0 percent, down from 2.9 percent in April 2010. During the next 3 years, demand is expected for 3,550 new homes in the HMA (Table 1). The 200 homes currently under construction will meet a portion of this demand. In addition, some of the 12,800 other vacant units may reenter the market and satisfy a portion of the demand.

Rental Market

The rental housing market in the HMA is soft, with an estimated vacancy rate of 8.0 percent, down from 10.0 percent in April 2010. The apartment vacancy rate is considerably lower than the overall rental vacancy rate, at 4.1 percent during the third quarter of 2014 (Reis, Inc.). The average apartment rent was \$687, up 1 percent from the third quarter of 2013. During the next 3 years, demand is expected for 2,000 additional market-rate rental units (Table 1). The approximately 660 units under construction will meet a portion of the demand.

Table 1. Housing Demand in the Chattanooga HMA During the Forecast Period

	Chattanooga HMA	
	Sales Units	Rental Units
Total demand	3,550	2,000
Under construction	200	660

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of November 1, 2014. A portion of the estimated 12,800 other vacant units in the HMA will likely satisfy some of the forecast demand. The forecast period is November 1, 2014, to November 1, 2017.

Source: Estimates by analyst

Economic Conditions

Economic conditions in the Chattanooga HMA began to improve in April 2010, after 2 years of economic decline from 2007 to 2009; however, nonfarm payrolls currently remain approximately 7,300 jobs less than the peak of 247,500 jobs in 2007. During the 12 months ending October 2014, nonfarm payrolls averaged 240,200, an increase of 2,100 jobs, or 0.9 percent, from the same period a year earlier (Table 2). From 2000 through 2002, nonfarm payrolls decreased by an average of 1,500 jobs, or 0.6 percent, annually during the national economic downturn. Job losses were most severe in the manufacturing sector, which decreased by 4,900 jobs, or 7.3 percent, annually. Nonfarm payrolls began to recover in 2003 and averaged an increase of 2,400 jobs, or 1.0 percent, annually through 2007. Growth occurred in most sectors but was strongest in the education and health services sector, which increased by 1,400 jobs, or 4.3 percent, annually. During the most recent national recession from the end of 2007 through 2009, jobs decreased by 9,800 jobs, or 4 percent, annually.

The local effects of the national recession were most severe in the manufacturing and the transportation and utilities sectors, which declined by an average of 3,300 and 2,500 jobs, or 9.7 and 13.0 percent, respectively, annually. Every employment sector decreased during the recession except the education and health services sector and the information services sector, which increased by an average of 700 and 50 jobs, or 2.4 and 1.4 percent, respectively, annually. Nonfarm payrolls began to recover and growth averaged 2,800 jobs, or 1.2 percent, annually from 2010 through 2012, with 64 percent of the gains attributable to the professional and business services sector, which increased by an average 1,800 jobs, or 7.7 percent, annually. The wholesale and retail trade sector increased by nearly 200 jobs, or 0.5 percent, annually, but most of these net gains occurred when an Amazon.com, Inc. distribution center opened in 2011 with 1,250 jobs. The education and health services sector increased by nearly 700 jobs annually, in part because of an expansion at CHI Memorial Health System that began in the spring of 2011 and is expected to add 500 healthcare jobs by the time renovations are complete at the end of 2015. The unemployment rate in the HMA averaged 6.7 percent during the 12 months ending October 2014, down from 7.7 percent a year earlier. The unemployment rate remains elevated compared with the average unemployment rate of 4.4 percent from 2002 through 2007 as the economic recovery continues in the HMA after the recent national recession. Figure 1 shows trends in the labor force, resident employment, and the unemployment rate in the HMA from 2000 through 2013.

Table 2. 12-Month Average Nonfarm Payroll Jobs in the Chattanooga HMA, by Sector

	12 Months Ending		Absolute Change	Percent Change
	October 2013	October 2014		
Total nonfarm payroll jobs	238,100	240,200	2,100	0.9
Goods-producing sectors	39,500	39,100	- 400	- 1.0
Mining, logging, & construction	9,000	9,000	0	0.0
Manufacturing	30,500	30,100	- 400	- 1.3
Service-providing sectors	198,500	201,000	2,500	1.3
Wholesale & retail trade	33,900	34,300	400	1.2
Transportation & utilities	17,100	17,700	600	3.5
Information	2,800	2,800	0	0.0
Financial activities	13,800	13,900	100	0.7
Professional & business services	27,600	27,500	- 100	- 0.4
Education & health services	32,400	32,700	300	0.9
Leisure & hospitality	24,800	26,300	1,500	6.0
Other services	9,900	9,900	0	0.0
Government	36,200	36,000	- 200	- 0.6

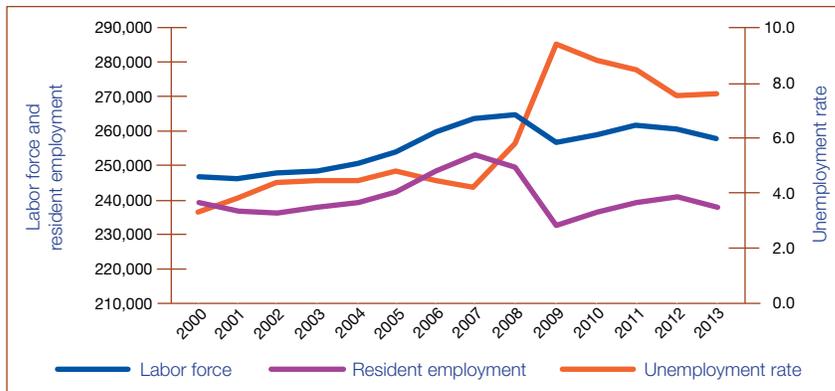
Notes: Numbers may not add to totals because of rounding. Based on 12-month averages through October 2013 and October 2014.

Source: U.S. Bureau of Labor Statistics

The greatest nonfarm payrolls gains during the 12 months ending October 2014 occurred in the leisure and hospitality sector, which added 1,500 jobs, an increase of 6.0 percent. During the past 12 months, a Hampton Inn Hotel opened in the town of Kimball in Marion County, and several restaurants and bars opened in the city of Chattanooga, including Primo, Wafflez Factory, and The Bitter Alibi. From 2001 through 2008, leisure and hospitality payrolls increased by an average of 700 jobs, or 3.5 percent, annually. Although the HMA is

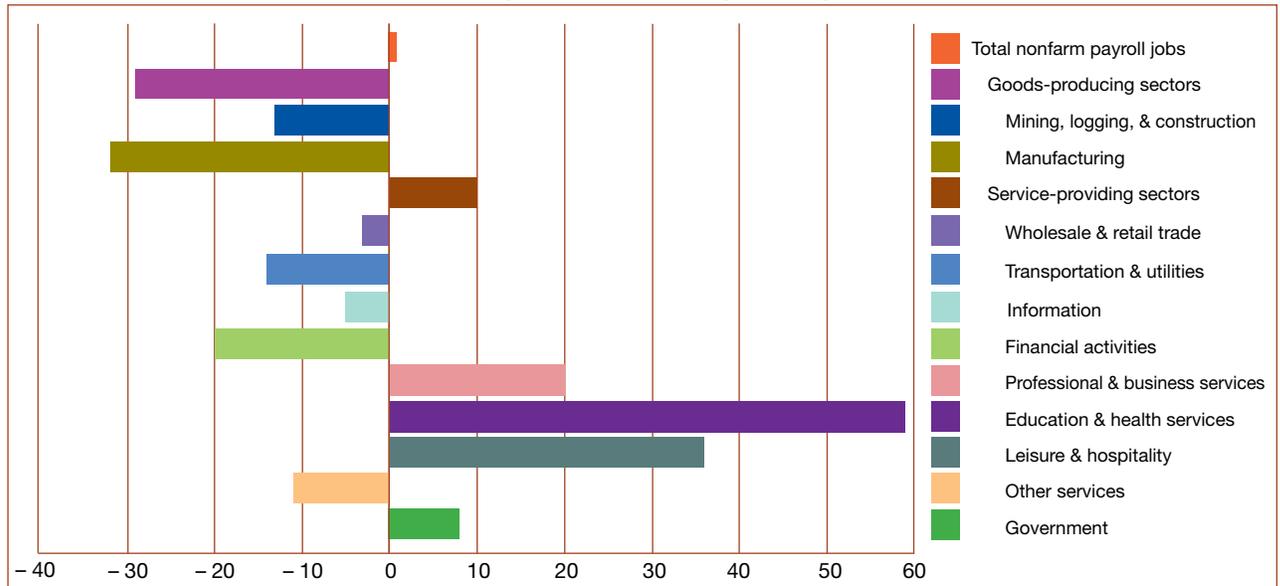
somewhat dependent on tourism, leisure and hospitality payrolls did not have severe losses during the most recent national recession. Leisure and hospitality payrolls decreased by 800 jobs, or 3.4 percent, in 2009 but quickly recovered and increased by an average of 600 jobs, or 2.6 percent, annually from the end of 2009 through 2013. Restaurant openings increased as consumer spending gained momentum and the local economy continued to improve. The HMA remains an affordable, regional tourist destination and is expected to continue to attract visitors. An annual IRONMAN TRIATHLON® competition began in the city of Chattanooga in September 2014, and a shorter IRONMAN® 70.3® competition will begin in May 2015, which, combined, are expected to attract about 6,000 competitors and supporters to the HMA and have an economic impact of nearly \$4 million annually (Chattanooga Visitor Bureau). Figure 2 shows sector growth in the HMA from 2000 through the current date.

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Chattanooga HMA, 2000 Through 2013



Source: U.S. Bureau of Labor Statistics

Figure 2. Sector Growth in the Chattanooga HMA, Percentage Change, 2000 to Current



Note: Current is based on 12-month averages through October 2014.

Source: U.S. Bureau of Labor Statistics

The transportation and utilities sector also contributed to the nonfarm payroll gains during the 12 months ending October 2014, adding 600 jobs, or 3.5 percent, compared with the number of jobs during the same period a year earlier, to average 17,700 jobs. Beginning in 2008, the local power company, EPB Fiber Optics, and the city of Chattanooga collaborated to build a Smart-grid power system and fiberoptics infrastructure throughout most of the HMA and, by 2010, was able to offer Internet speeds of up to 1 gigabyte per second, the fastest in the country, and earned the city of Chattanooga the nickname “Gig City.” EPB Fiber Optics currently employs about 540 people. The Tennessee Valley Authority (TVA), a utility company, is the second largest employer in the HMA, with 4,125 employees (Table 3). In

August 2014, TVA announced the elimination of approximately 2,000 jobs throughout the southeastern United States in a company restructuring. The layoffs were to be completed by January 2015; however, it was uncertain how many of the losses would occur in the HMA. Employment in the transportation and utilities sector remains at 3,100 jobs less than the average of 20,800 jobs in 2007, before the national recession, but job growth continues as the economy recovers. In 2012, Access America Transport added 450 jobs in the HMA and, in 2013, Steam Logistics, LLC, opened with about 50 employees.

The largest employment sector in the HMA is the government sector, accounting for 15 percent of nonfarm payrolls (Figure 3). State and local government are the largest subsectors, accounting for 6,700 and 23,000 payrolls, respectively. UTC employs 1,200 staff and faculty and enrolled 10,100 students in the fall of 2014, down slightly from 10,200 students enrolled in the fall of 2013. A study published in 2010 estimated the economic impact of UTC on the state of Tennessee to be \$205 million (The University of Tennessee Center for Business and Economic Research). During the 12 months ending October 2014, government payrolls decreased by 200 jobs, or 0.6 percent, from a year earlier, to average 36,000 jobs, with losses primarily in the local government subsector.

Alongside national trends, manufacturing payrolls have been declining since 1990, because integrated technology has improved production efficiency. From 2000 through 2009, payrolls decreased by an average of 1,800 jobs, or 4.9 percent, annually. Manufacturing closures in 2009 included Shaw Industries Group, Inc., R.L. Stowe

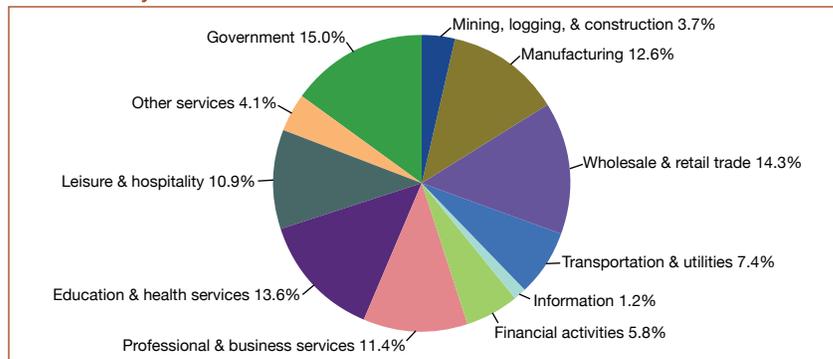
Table 3. Major Employers in the Chattanooga HMA

Name of Employer	Nonfarm Payroll Sector	Number of Employees
BlueCross BlueShield of Tennessee	Financial activities	4,250
Tennessee Valley Authority	Transportation & utilities	4,125
Erlanger Health System	Education & health services	3,475
CHI Memorial Health System	Education & health services	2,850
Unum Group	Financial activities	2,800
McKee Foods Corporation	Manufacturing	2,750
City of Chattanooga	Government	2,675
Volkswagen of America, Inc.	Manufacturing	2,100
Amazon.com, Inc.	Wholesale & retail trade	1,975
Hamilton County	Government	1,775

Note: Excludes local school districts.

Source: Chattanooga Area Chamber of Commerce

Figure 3. Current Nonfarm Payroll Jobs in the Chattanooga HMA, by Sector



Note: Based on 12-month averages through October 2014.

Source: U.S. Bureau of Labor Statistics

Mills Inc., and DJO Chattanooga, eliminating 430, 400, and 300 jobs in the HMA, respectively. From 2010 through 2012, payrolls increased by an average of 800 jobs, or 2.7 percent, annually. In 2011, Volkswagen of America opened a manufacturing plant in Hamilton County to produce the Volkswagen Passat, creating 2,000 jobs. The manufacturing payroll gains at Volkswagen of America more than offset the loss of 350 jobs when Blue Bird Corporation, a schoolbus manufacturer in La Fayette, Georgia, closed its plant in 2010. Manufacturing payrolls declined by 400 jobs, or 1.3 percent, during the 12 months ending October 2014 compared with the same period a year earlier. In June 2014, Ferrara Candy Company laid off 95 workers at a manufacturing plant in Hamilton County and, in September, announced the closing of the factory by the end of 2014, eliminating an additional 90 jobs.

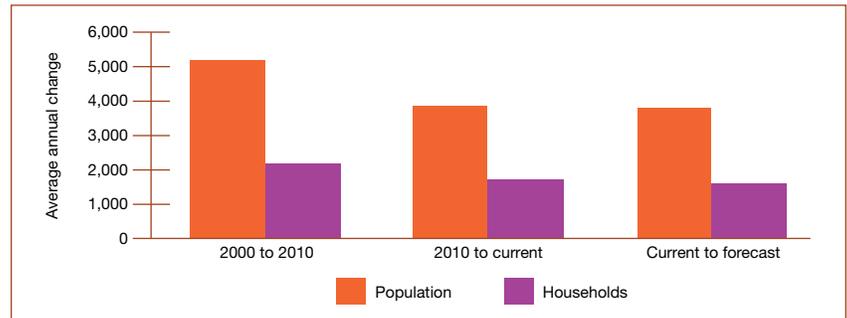
During the next 3 years, nonfarm payrolls are expected to increase by an average of 3,275 jobs, or 1.4 percent, annually. Despite recent declines, the manufacturing sector is expected to be a leading contributor to employment gains during the next 3 years because of expected openings and expansions. In July 2014, Volkswagen of America announced an expansion at the

manufacturing plant to add 2,000 jobs, including 200 engineering positions, during the next 2 years, when a new sport utility vehicle begins production in 2016. In addition, automotive supply companies are increasing employment in the HMA, including Plastic Omnium Auto Exterior Division, which will open a new facility in 2015, with 185 jobs, and add an additional 115 jobs within 3 years. A transportation and logistics company, Tranco Logistics, announced it would add nearly 60 positions to double the number of jobs at the company to accommodate increased service to Volkswagen of America. Employment in the leisure and hospitality sector is also expected to continue to gain steam during the next 3 years. The city of Chattanooga is establishing an entertainment district downtown in conjunction with renovations surrounding the Chattanooga Choo Choo Historic Hotels of America resort. Construction began in August 2014 and is expected to be complete in the spring of 2015, with new restaurants, a comedy club, music venue, retail space, and an update of the historic hotel. The expected number of new jobs in the entertainment district is not yet available. A Holiday Inn and Suites hotel under construction in downtown Chattanooga is expected to open in May 2015, creating 80 jobs.

Population and Households

As of November 1, 2014, the population in the Chattanooga HMA was estimated at 545,800, an average increase of 3,850, or 0.7 percent, annually since April 2010 compared with an average increase of 5,150,

or 1.0 percent, annually from April 2000 to April 2010. Figure 4 shows population and household growth in the HMA from 2000 to the forecast date. In addition to the slight decrease in population growth since 2000, the

Figure 4. Population and Household Growth in the Chattanooga HMA, 2000 to Forecast

Notes: The current date is November 1, 2014. The forecast date is November 1, 2017.

Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analyst

location of the population growth changed from the surrounding counties in the HMA to concentrate near new employment centers in Hamilton County. Approximately 65 percent of the population of the HMA resides in Hamilton County. The HMA population increased by 4,150, or 0.9 percent, annually from 2000 to 2003 (intercensal based on census population estimates as of July 1). During this period, however, Hamilton County accounted for only 36 percent of population growth in the HMA when more people commuted into Hamilton County from other counties in the HMA, particularly in northern Georgia. From 2004 to 2007, the population grew faster, averaging an increase of 5,750, or 1.2 percent, annually, with Hamilton County accounting for 51 percent of the increase. From 2008 to 2011, the increase in population slowed during the national recession and the first years of the recovery, averaging an increase of 5,025, or 1.0 percent, annually; however, the share of growth in Hamilton County increased to 80 percent of population growth. During 2011, the Amazon.com, Inc. distribution center and the Volkswagen of America manufacturing plant opened in the east side of the city of Chattanooga in Hamilton County, and new housing developments

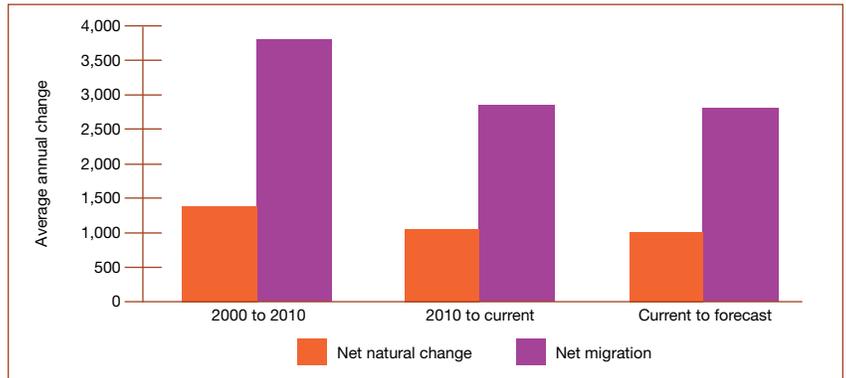
were built near these emerging employment centers. In 2012 and 2013, population growth continued to slow, to 4,300 people, or 0.8 percent, annually, but 92 percent of the population growth occurred in Hamilton County.

Since 2000, population growth trends in the HMA have primarily resulted from net in-migration to areas near employment centers in Hamilton County. From 2000 to 2003, net in-migration averaged 2,925 people annually, accounting for 71 percent of population growth, with the remaining growth coming from net natural change (resident births minus resident deaths). From 2004 to 2007, net in-migration accounted for 77 percent of population growth, averaging 4,425 people annually. From 2008 to 2011, net in-migration averaged 3,575 people annually, or 71 percent of population growth. During the next 3 years, the population is expected to increase by an average of 3,775, or 0.7 percent, annually. Net in-migration is expected to comprise 74 percent of population growth and most of the increase in the population in the HMA is expected to occur in Hamilton County. Figure 5 shows components of population change in the HMA from 2000 to the forecast date.

An estimated 218,650 households reside in the HMA. The number of households increased by 2,125, or 1.1 percent, annually from 2000 through 2010. Since 2010, the number of households increased by 1,700, or 0.8 percent, annually, after the similar slowdown in population growth during the same period. As the population growth has concentrated in Hamilton County since 2010, the homeownership rate for the entire HMA gradually declined, due in part to a higher proportion of renter households in Hamilton County. The homeownership rate in the HMA is 66.0 percent, down from 67.8 percent in April 2010 and 70.0 percent in April 2000. In Hamilton County, the

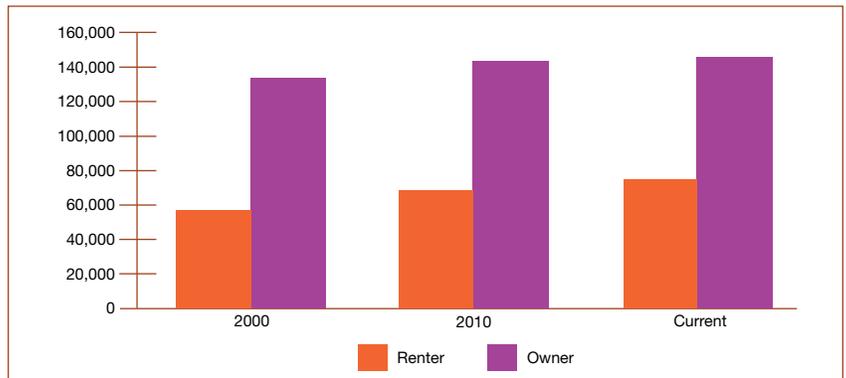
homeownership rate is less than for the overall HMA, at 62.2 percent, compared with 64.3 percent in April 2010 and 65.9 percent in April 2000. Figure 6 shows the number of households by tenure in the HMA. During the next 3 years, the number of households in the HMA is expected to increase by an average of 1,575 households, or 0.7 percent, annually. Reflecting the population growth trends and the location of most new residential construction, most of the increase is expected to be in Hamilton County. Table DP-1 at the end of this report provides additional data on households for the HMA.

Figure 5. Components of Population Change in the Chattanooga HMA, 2000 to Forecast



Notes: The current date is November 1, 2014. The forecast date is November 1, 2017. Sources: 2000 and 2010–2000 Census and 2010 Census; current and forecast—estimates by analyst

Figure 6. Number of Households by Tenure in the Chattanooga HMA, 2000 to Current



Note: The current date is November 1, 2014. Sources: 2000 and 2010–2000 Census and 2010 Census; current—estimates by analyst

Housing Market Trends

Sales Market

Sales housing market conditions in the Chattanooga HMA are currently soft but improving. The inventory of homes for sale in October 2014 represented an 8.3-month supply, down from an 8.9-month supply a year earlier and a 9.3-month supply in October 2012 (Greater Chattanooga Association of Realtors®). The estimated sales vacancy rate is 2.0 percent, down from 2.9 percent in April 2010. Although the population has increased at a generally steady pace, construction of new homes has decreased, allowing for some of the vacancies to be absorbed. The decline in the sales vacancy rate was more dramatic in Hamilton County, decreasing from 3.1 percent in 2010 to 1.9 percent currently, because this county has accounted for 90 percent of household growth in the HMA since 2010. The sales vacancy rate in the remaining counties decreased slightly, from 2.5 percent in April 2010 to 2.3 percent currently.

During the 12 months ending October 2014, sales of existing single-family homes, townhomes, and condominiums (hereafter, existing homes) totaled 8,600 homes sold, an increase of 1 percent from the previous 12 months and representing the most homes sold since 2008 (CoreLogic, Inc., with adjustments by the analyst). Although existing home sales increased only slightly, the share of REO (Real Estate Owned) homes sold decreased. Sales of REO homes in the HMA totaled 1,150 during the 12 months ending October 2014, accounting for 13 percent of existing home sales compared with 1,450 REO homes sold, or 17 percent of existing home sales, during the same period a year earlier. Existing home sales in the HMA were highest

from 2000 through 2003, when an average of 11,100 homes sold annually before decreasing to an average of 10,500 homes sold annually from 2004 through 2007. Although population growth in the HMA was strongest from 2004 through 2007, and although it was a period of moderate economic growth, sales of existing homes decreased. During this period, newly constructed homes and rental properties, primarily in Hamilton County, met the resulting growth in overall housing demand and offset the decline in the number of existing homes sold. Existing home sales decreased a further 26 percent, to an average 7,725 homes sold a year, during the 2008-through-2011 period compared with the average from 2004 through 2007 because of effects from the national recession and reduced access to lending during the housing crisis. Sales of REO homes peaked at 1,575 during 2010, comprising 22 percent of existing homes sold, after the peak of seriously delinquent loans and REO properties in January 2010. By comparison, from 2005 through 2007, REO sales averaged 630 homes, or 6 percent of all existing sales. Home sales began increasing again in 2012 as employment opportunities continued to improve and home loans again became more accessible.

The average existing home sales price in the HMA has increased since 2000 as demand increased for higher priced homes in proximity to employment centers. The average existing home sales price was \$150,800 during the 12 months ending October 2014, up 2 percent from the previous 12 months (CoreLogic, Inc., with adjustments by the analyst). The sales price of REO

Housing Market Trends

Sales Market *Continued*

homes averaged \$77,500, unchanged from the same 12-month period a year earlier. The existing home sales price from 2000 through 2003 averaged \$99,800 and increased 31 percent, to an average of \$131,100, from 2004 through 2007. During this latter period, increased demand for existing homes in Hamilton County near employment centers contributed to the jump in the average sales price in the HMA. The home sales price increased slightly from the end of 2007 through 2011, to average \$131,500, partly because of the preference for higher priced homes in Hamilton County offsetting some of the downward pressure that was caused by an increase in REO sales. Although REO sales increased during this time, the average sales price of REO properties was 10 percent higher from 2008 through 2011, averaging \$82,700, and therefore did not lower the overall average existing sales price as much. The 12-month average existing home sales price exceeded \$140,000 for the first time in 2012, when the sales price averaged \$141,000.

The rise in seriously delinquent loans and REO properties in Hamilton County was less severe than in the rest of the HMA. As of October 2014, 4.6 percent of home loans in Hamilton County were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 5.2 percent October 2013 (Black Knight Financial Services, Inc.). In the remaining counties in the HMA, seriously delinquent loans and REO properties accounted for 5.7 percent of loans in October 2014, down from 6.4 percent a year ago. By comparison, in the state of Tennessee, seriously delinquent loans and REO properties accounted for 4.7 percent of loans in

October 2014, down from 5.4 percent a year earlier, similar to Hamilton County. In January 2010, seriously delinquent loans and REO properties peaked at 7.7, 9.5, and 7.6 percent of home loans in Hamilton County, the rest of the HMA, and the state of Tennessee, respectively.

The demand for new single-family homes, townhomes, and condominiums (hereafter, new homes) remains subdued in the HMA, in part because employment also remains less than the prerecession peak. During the 12 months ending October 2014, 590 new homes sold, down 5 percent from the 12 months ending October 2013 (CoreLogic, Inc., with adjustments by the analyst). Single-family homebuilding activity, as measured by the number of single-family homes permitted, also decreased during the past 12 months. During the 12 months ending October 2014, 1,025 single-family homes were permitted, down 125 homes, or 11 percent, from the previous 12 months (preliminary data). From 2000 through 2003, single-family permitting averaged 2,425 homes annually before increasing nearly 20 percent to average 2,900 homes annually from 2004 through 2007, as population growth increased. During this period, the increase was slightly higher in Hamilton County, at 25 percent, because of a faster population growth rate than the rest of the HMA. Hamilton County accounted for 62 percent of single-family homes built in the HMA from 2004 through 2007. New home sales in the HMA began to decline in 2007, which drove a decrease in single-family permitting in 2008. Permitting averaged 1,050 homes annually from 2008 through 2011, a period of slightly slower population growth, increased preferences for rental units in Hamilton

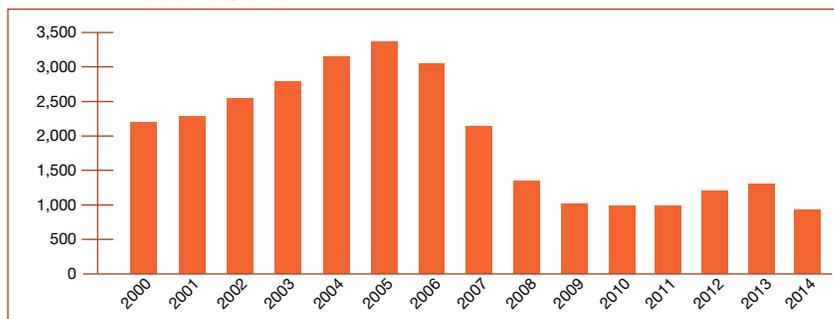
County, and strict lending standards. Permits for single-family homes increased to 1,175 homes in 2012 as access to lending returned, increasing the demand for new homes, particularly in Hamilton County. Figure 7 shows single-family homes permitted in the HMA since 2000. New single-family developments in the HMA are primarily in eastern Hamilton County, along the Interstate 75 transportation corridor and in proximity to major employment centers, including the Volkswagen of America manufacturing plant and adjacent business park, McKee Foods Corporation, and Amazon.com, Inc. distribution center. The 104-lot first phase at Prairie Pass, in the community of Apison in eastern Hamilton County, opened in 2013, and the price for homes with three bedrooms and two bathrooms starts at approximately

\$230,000. Approximately 45 lots remain, and the first phase is expected to be complete in the summer of 2015. An additional 180-lot second phase is expected to begin infrastructure development in the spring of 2015, and the first homes are expected to be under construction by the end of 2015, with an anticipated starting price of approximately \$250,000.

The average sales price for a new home during the 12 months ending October 2014 was \$258,800, an increase of 10 percent from a year earlier, as demand for new homes continued to increase (CoreLogic, Inc., with adjustments by the analyst). From 2005 through 2007, the average sales price for a new home was \$208,100; this price increased 3 percent to an average sales price of \$213,600 from 2008 through 2011, despite the decrease in the number of new homes sold. Demand for new homes increased and new home sales prices averaged \$228,800 in 2012 and increased 3 percent in 2013.

During the 3-year forecast period, demand is expected for 3,550 new homes (Table 1). The 200 homes currently under construction and a portion of the 12,800 other vacant units that may reenter the market will satisfy some of the demand. Demand is expected to be greatest in the \$200,000-to-\$299,999 range, accounting for nearly 50 percent of demand. To allow for the absorption of excess housing supply and homes under construction, most new homes should come on the market during the second and third years of the forecast period—coinciding with expected economic growth. Table 4 shows estimated demand for new market-rate sales housing by price range.

Figure 7. Single-Family Homes Permitted in the Chattanooga HMA, 2000 to Current



Notes: Includes townhomes. Current includes data through October 2014.

Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Chattanooga HMA During the Forecast Period

Price Range (\$)		Units of Demand	Percent of Total
From	To		
100,000	149,999	280	8.0
150,000	199,999	500	14.0
200,000	249,999	850	24.0
250,000	299,999	890	25.0
300,000	349,999	430	12.0
350,000	399,999	250	7.0
400,000	449,999	180	5.0
450,000	and higher	180	5.0

Notes: The 200 homes currently under construction and a portion of the estimated 12,800 other vacant units in the submarket will likely satisfy some of the forecast demand. The forecast period is November 1, 2014, to November 1, 2017.

Source: Estimates by analyst

Rental Market

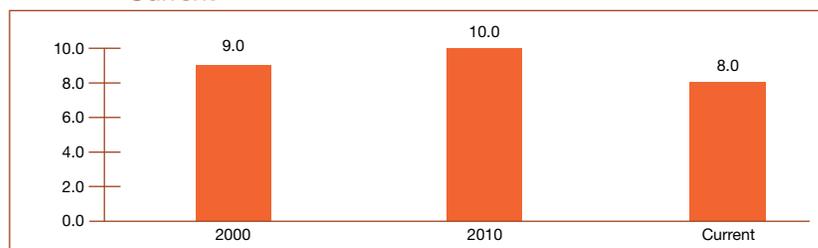
The overall rental housing market in the Chattanooga HMA, which includes mostly single-family homes, mobile homes, and apartments, is currently soft, with an estimated vacancy rate of 8.0 percent, down from 10.0 percent in April 2010 (Figure 8). Approximately 42 percent of renter households live in single-family homes (2013 American Community Survey 1-year estimates). In Hamilton County, where apartments comprise a higher share of rental homes, nearly 38 percent of renter households live in single-family homes compared with 51 percent of renter households in the remaining counties in the HMA. Increased population growth, primarily in Hamilton County, coupled with increased preferences to rent, has outpaced apartment construction since 2010, contributing to the decrease in the overall vacancy rate. The apartment vacancy rate in the HMA was 4.1 percent during the third quarter of 2014, down from 4.7 percent a year earlier (Reis, Inc.). The average rent in the HMA increased 1 percent to \$687 a month. The average rents for one-, two-, and three-bedroom units were \$598, \$734, and \$916, respectively.

UTC is expected to increase dorm capacity by 600 beds in time for the 2017 fall semester. Freshmen are required to live on campus and the additional beds are expected to

accommodate anticipated enrollment and alleviate a current undersupply of beds, which resulted in UTC's placing approximately 130 students in nearby hotels. Because of the shortage of dormitories, upperclassmen must live off campus, which increases the demand for rental housing in proximity of the university. Apartment market conditions were most tight in downtown Chattanooga, including areas surrounding the UTC campus, with a vacancy rate of 2.8 percent during the third quarter of 2014, down from 4.4 percent a year earlier (Reis, Inc.). Despite tight apartment market conditions in downtown Chattanooga, the average rent increased only 1 percent, to \$629 a month.

Multifamily construction activity, as measured by the number of units permitted, increased in the past year as apartment construction increased to meet demand. During the 12 months ending October 2014, approximately 930 units were permitted compared with 130 units during the previous 12-month period (preliminary data). Essentially all the units permitted during the past 12 months were in Hamilton County. Multifamily permitting since 2009 has been almost exclusively for apartments, while condominiums accounted for approximately 17 percent of multifamily permits from 2000 through 2008. From 2000 through 2003, multifamily permits averaged 470 units annually. Although most of the population growth occurred in the remaining counties, Hamilton County, with a larger share of renter households, accounted for 62 percent of multifamily units permitted, an average of 290 units annually. The average number of units permitted

Figure 8. Rental Vacancy Rates in the Chattanooga HMA, 2000 to Current



Note: The current date is November 1, 2014.

Sources: 2000 and 2010–2000 Census and 2010 Census; current—estimates by analyst

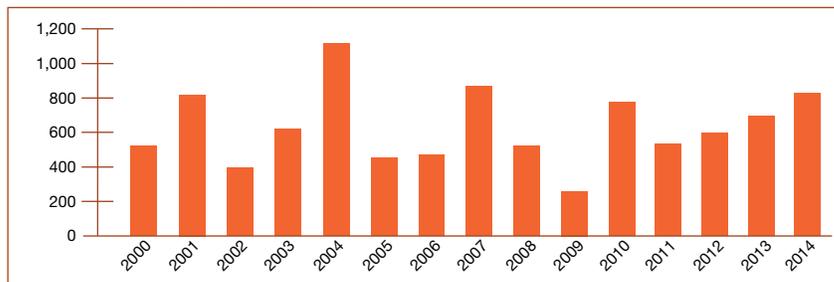
annually remained relatively stable from 2004 through 2007, although the share of units permitted in Hamilton County increased slightly, to 65 percent of the units, or nearly 310 units annually, when population growth shifted and began to increase more in Hamilton County than in the remaining counties. Multifamily permits decreased 54 percent to average 220 units annually from 2008 through 2011, but the share of units permitted in Hamilton County increased to 84 percent. Figure 9 shows multifamily units permitted in the HMA since 2000.

The Forest Cove Apartments, near the East Brainerd community in the city of Chattanooga, are under construction

and are expected to be complete in November 2014. The 120-unit apartment complex began preleasing in May 2014, with rents starting at approximately \$850 for one-bedroom units and \$1,050 for two-bedroom units. The first phase at Integra Hills, in the community of Ooltewah in eastern Hamilton County, opened with 278 units in August 2012. The second phase, adding 220 units, is expected to begin some occupancy in April 2015, with final completion expected in August 2015. Rents for one-, two-, and three-bedroom units start at approximately \$985, \$1,100, and \$1,300 a month, respectively.

During the next 3 years, demand is expected for 2,000 new market-rate rental units (Table 1). The 660 units currently under construction will satisfy some of the demand. Table 5 shows estimated demand for new market-rate rental housing in the HMA during the 3-year forecast period. Most of the units should be complete in the second and third years of the forecast period to allow for the absorption of units currently in lease up and under construction.

Figure 9. Multifamily Units Permitted in the Chattanooga HMA, 2000 to Current



Notes: Excludes townhomes. Current includes data through October 2014.
Sources: U.S. Census Bureau, Building Permits Survey; estimates by analyst

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Chattanooga HMA During the Forecast Period

Zero Bedrooms		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	Monthly Gross Rent (\$)	Units of Demand
600 to 799	55	800 to 999	400	1,050 to 1,249	530	1,290 to 1,489	120
800 or more	20	1,000 to 1,199	240	1,250 to 1,449	240	1,490 to 1,689	35
		1,200 or more	160	1,450 or more	190	1,690 or more	15
Total	70	Total	790	Total	970	Total	170

Notes: Numbers may not add to totals because of rounding. The 660 units currently under construction will likely satisfy some of the estimated demand. The forecast period is November 1, 2014, to November 1, 2017.

Source: Estimates by analyst

Data Profile

Table DP-1. Chattanooga HMA Data Profile, 2000 to Current

	2000	2010	Current	Average Annual Change (%)	
				2000 to 2010	2010 to Current
Total resident employment	238,995	236,094	237,000	- 0.1	0.1
Unemployment rate	3.4%	8.8%	6.7%		
Nonfarm payroll jobs	238,400	228,700	240,200	- 0.4	1.3
Total population	476,531	528,143	545,800	1.0	0.7
Total households	189,607	210,867	218,650	1.1	0.8
Owner households	132,752	143,001	144,400	0.7	0.2
Percent owner	70.0%	67.8%	66.0%		
Renter households	56,855	67,866	74,250	1.8	2.0
Percent renter	30.0%	32.2%	34.0%		
Total housing units	205,343	234,440	240,900	1.3	0.6
Owner vacancy rate	1.9%	2.9%	2.0%		
Rental vacancy rate	9.0%	10.0%	8.0%		
Median Family Income	\$44,500	\$56,100	\$58,000	2.3	0.8

Notes: Numbers may not add to totals because of rounding. Employment data represent annual averages for 2000, 2010, and the 12 months through October 2014. Median Family Incomes are for 1999, 2009, and 2013. The current date is October 1, 2014.

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

Data Definitions and Sources

2000: 4/1/2000—U.S. Decennial Census
 2010: 4/1/2010—U.S. Decennial Census
 Current date: 11/1/2014—Analyst's estimates
 Forecast period: 11/1/2014–11/1/2017—
 Analyst's estimates

The Chattanooga, TN-GA Metropolitan Statistical Area definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.

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.

Other Vacant Units: In the U.S. Department of Housing and Urban Development's (HUD's) analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

Building Permits: Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures

are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.

For additional data pertaining to the housing market for this HMA, go to http://www.huduser.gov/publications/pdf/CMARtables_ChattanoogaTN-GA_15.pdf.

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This analysis has been prepared for the assistance and guidance of 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.gov/portal/ushmc/chma_archive.html.