

# SCENIC CITY GETS A BETTER VIEW

Chattanooga is enjoying a boom of office retail and hotel activity amid its urban renewal.

By Gerald McCormick of McCormick & Co./CORFAC

Chattanooga is situated at a U-turn of the Tennessee River amidst forests and mountains, hence the community's nickname, Scenic City. Two of Chattanooga's largest employers are Volkswagen, which has a plant here, and Amazon, which runs a distribution center in the city. Insurance firm Unum Group, a Fortune 500 Company founded in 1848, is headquartered here and is one of the larger occupiers of downtown office space.

Long-known for its natural resources and as a tourism destination, Chattanooga is experiencing a real estate boom fueled by urbanization trends and its proximity to Atlanta (2 hours south) and Nashville (1.5 hours northwest), as well as its growing recognition as one of the South's top tourism and entertainment venues.

Key to the urban renewal is the conversion of dozens of properties — mostly from office uses to residential, retail or hotel uses.

The combination of the Great Recession and a 2009 move by BlueCross BlueShield into a new \$229 million downtown facility has led to the relatively high vacancy rate of 17.5 percent that persisted up until early 2014. Most of the 600,000 square feet of facilities vacated by BlueCross BlueShield were not suitable for multi-tenanted office use and the spaces would have been difficult to divide. As such, the Gold Building is being converted to a hotel while the Chestnut Building is being marketed as a data center.

Chattanooga's downtown office market was also negatively impacted by the 2010 downsizing by Cigna, as well as the 2012 relocation to Atlanta by Krystal Corp. after it was acquired by a firm the e.

In other conversion examples, the 50,000-square-foot Warehouse Row office building was converted to retail/office use. The 121,000-square-foot Chattanooga Bank Building (vacant for 10 years) is being converted to hotel use, and the 294,830-square-foot State Office Building has been given to University of Tennessee-Chattanooga for dormitory use. Combined, more than 800,000 square feet of offices in the downtown, or about 15 percent of the total inventory that is not occupied by an owner/user, are being converted to other uses.

In a market with approximately 5.5 million square feet of office inventory, the conversions are putting a dent in the vacancy rate, which has fallen to under 15 percent and is expected to slowly trend lower in the next few years.



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For another example of repositioning, McCormick & Co. Commercial Real Estate/CORFAC International is renovating the three Fleetwood Coffee buildings on East 11th Street. When complete, the 90,000 square feet of space will have two restaurants at the street level totaling about 6,000 square feet; 30,000 square feet of office space; and the balance will be apartments and condominiums. The project is on the outer edge of the central business district (CBD) and in an area of the city designated as an Innovation District, which is intended to draw entrepreneurs, tech startups and other creative businesses.

We are also involved in a mixed-use renovation of the three-story, 65,000-square-foot Lifestyle building on Market Street in which the third floor will remain medical offices, while the second floor was pre-leased to Tech Town, which will be a center for children to learn about technology. The first floor is going to be a mix of retail, restaurants and a medical clinic.

Class A office rents are commanding from \$16 to \$20 per square foot triple net, while B and C buildings, particularly those further away from the downtown, are going for \$10 to \$12 per square foot.

## Urban Living Driving Revival

Chattanooga and Hamilton County are growing. The metro area is surrounded by rural counties and mid-sized towns including Cleveland, Tennessee and Dalton, Georgia.

The U.S. Census Bureau's most recent data (2013) pegged the population within Chattanooga city limits at 173,366 residents, a 2.7 percent increase from the 2010 Census when 167,674 people lived in the city. The Chattanooga metropolitan statistical area (MSA) is the 99th largest in the United States, with more than 500,000 residents. People want to live in the downtown for its amenities, and Chattanooga is a great walking town.

A January 2014 study by national housing consultant Robert Charles Lesser Co. (RCLCO) indicated a shortage in excess of 3,000 residential



Kinsey Probasco Hays will reposition one of the buildings of the iconic Chattanooga Choo Choo, a former train station turned hotel, into a 97-unit multifamily community.

units in the downtown corridor. Adding the 3,000 units with a mix of conversion and new construction is expecting to spur the development of 200,000 square feet of retail and 150,000 to 200,000 square feet of new office space during this three- to five year construction boom, according to RCLCO.

The demand for downtown housing runs the gamut from apartments for service-sector workers and young singles through couples, families and luxury-class product. Owners of the Chattanooga Choo Choo, downtown Chattanooga's iconic, Beaux Arts-designed former train station turned hotel, are converting one of its hotel buildings with 97 rooms into 97 apartment units, according to Adam Kinsey, principal of development firm Kinsey Probasco Hays (KPH). Kinsey is the project manager and visionary behind the massive redevelopment and renovation of the Chattanooga Choo Choo.

The Choo Choo's new apartments will span 365 square feet with kitchenettes and asking rent of \$750 per unit, which includes all utilities. As of March 2015, the average apartment rent within 10 miles of Chattanooga was \$821, according to Rent Jungle. On the other end of the housing spectrum in downtown Chattanooga, a 3,000-square-foot upscale penthouse in a newer condo building recently sold for \$1.6 million.

Some of the demand for downtown condos is being driven by second-home buyers, with many of them coming from Atlanta and others from as far away as Vail, Colorado, Kinsey said.

Kinsey added that there are two new apartment communities expected to open soon, adding about 400 apartment homes to

downtown's stock, and there are approximately 2,000 apartments and condos in various stages of planning, development and construction.

## Retail on the Rise

With Chattanooga's expanding population, growing reputation as a lifestyle choice and strong tourism trade, national brands are opening stores in the city.

Warehouse Row recently landed J. Crew and Anthropologie as tenants. Ruth's Chris Steak House opened a restaurant in Hamilton Place Mall. Lululemon has opened a test store on the north end of town and Bass Pro Shops is under construction in East Ridge, which is near the Georgia state line.

In addition to national brands, Chattanooga is attracting regional restaurant operators, as well as local organic growth, in a thriving restaurant and bar town. Puckett's Restaurant, a high-volume food and beverage operator out of Nashville, is expected to open a 6,800-square-foot location on Broad Street next to the Tennessee Aquarium this summer.

## Hotel, Entertainment Boom

"We get approximately 3 million visitors annually and we see growth every year," a spokeswoman for the Chattanooga Area Convention & Visitors Bureau (CVB) said. As of Dec. 31, 2014, the tourism industry had an estimated economic impact of \$1 billion in Hamilton County, according to the CVB. Currently, the CVB estimates that there are 9,574 hotel rooms in Hamilton County. And that is about to change.

In December last year, a group of Iowa investors closed on the \$4.4 million purchase of the Chattanooga Bank Building, according to Kim

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White, president and CEO of the River City Co., a 30-year-old economic development entity in Chattanooga. The new owners plan to install a 160-room Aloft, a boutique hotel brand managed by Starwood Hotels & Resorts Worldwide. The Gold Building is being converted to a Westin hotel and conference facilities, while Holiday Inn & Suites is building a new 150-room hotel downtown.

White added that local hospitality operator Mitch Patel and his company, Vision Hospitality, are building a much-needed, high-end boutique hotel. Vision plans to break ground this summer by demolishing a former dentist office located at 102 Walnut St. in the city's art district. Adjacent to the Walnut Street Bridge, the five-story, 90-room hotel with a rooftop bar will have views of the Hunter Museum.

Much of the hospitality boom can be directly attributed to Chattanooga's growing music scene, the region's popularity as an outdoor activities destination and its business-friendly reputation that is attracting industry and jobs to Hamilton County.

Anchoring the music scene is the enormously successful Track 29 — a 1,700-seat club located within the Chattanooga Choo Choo compound.

Acts big and small come right through town and many of them play here as part of their Southeast regional swing, according to White.

### Choo Choo Renovation

The Chattanooga Choo Choo opened in 1909 as "Terminal Station" during the golden age of railroads in America. The central building has a magnificent dome, designed in the grand Beaux Arts style of neoclassical architecture that was taught by French universities for over two-and-a-half centuries and influential in the U.S. from 1880 to 1920. With the advance of America's car culture, train travel lost its customer base and the Choo Choo was converted into a hotel in the 1970s. In 1988, Choo Choo Partners LP purchased the hotel out of bankruptcy. Since then, the partnership has managed the 25-acre property comprising 361 hotel rooms, 10 shops, four restaurants, three pools, tennis courts and formal gardens.

Adam Kinsey said his goal in redeveloping the Choo Choo was to bring the tourists out of the hotel and the community into it, a reference that for many years hotel guests would get to the hotel and never leave. Conversely, the way the hotel owner in the 1970s closed off all the store fronts, installed drop ceilings in the main

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terminal and plastered over windows effectively blocked out people in the neighborhood from coming into the Choo Choo.

Kinsey is changing all that by refurbishing the main, 70,000-square-foot terminal to its original grandeur. The renovation includes all new plumbing, electrical and other infrastructure needs to the hotel rooms.

A new 500-seat entertainment venue called The Revelry Room is going into space formerly occupied by a skating rink. Comedy Catch, a popular club in Chattanooga for many years, is relocating from Brainerd Road to the Choo Choo as well. The Revelry Room is scheduled for 200 shows a year while the larger Track 29 is expected to host about 100 shows annually.

Kinsey is also repositioning the 13,500-square-foot space that

formerly served as the serving kitchen into three restaurants. Bluefish is a new restaurant that is opening in September, while two others are planned and will be announced at a later date.

As noted earlier, 97 of the hotel rooms are being converted to apartments. The \$8 million renovation is scheduled to be complete by the end of this year, at which time the Choo Choo will shift from being the largest hotel in Chattanooga to the second-largest with 264 rooms.

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