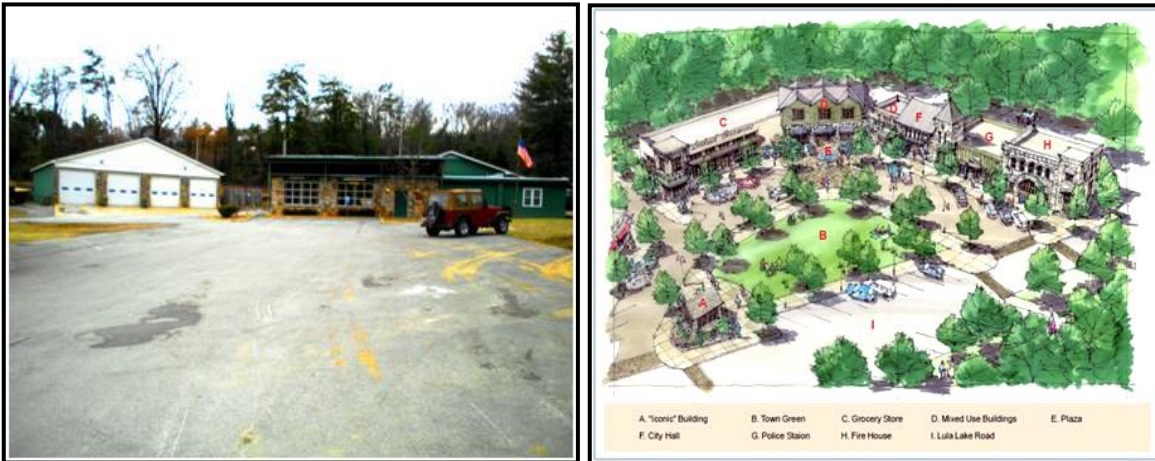


# MARKET ANALYSIS

## *Lookout Mountain Town Center Mixed-Use Project*



Prepared April 12, 2011  
for the City of Lookout Mountain, GA  
by Randall Gross / Development Economics

## **INTRODUCTION**

This report provides findings from a market analysis that determined the economic potential for development of retail and housing uses as part of a mixed-use Town Center project in Lookout Mountain, Georgia. The site had once housed a small retail center along with municipal buildings, but a fire destroyed the retail center in 2007. A community-driven Town Center Plan prepared by The Walker Collaborative in 2008 was intended to illustrate the type of development that the community would prefer for the use of this site. This plan envisioned a mixed-use development that would include residential and retail uses, along with new civic facilities in a walkable and welcoming community environment. An architectural rendering was completed by Artech to test the concept for construction. There was some question as to whether the type and scale of development proposed by the drawings was economically and financially feasible for the site. As a result, Randall Gross / Development Economics (RGDE) was contracted to prepare a market analysis to test the market support for the plan and a financial analysis to test the basic financial viability of the concept.

This market analysis includes a site assessment conducted based on field reconnaissance and other inputs, to review the factors impacting on the general marketability of the site for retail/residential mixed-use development. The findings from the site assessment are provided in Section 1 of this report. A basic housing market assessment was conducted to test the market for proposed housing uses at the site. The findings from this analysis are summarized in Section 2. In Section 3, the findings of the retail market analysis for the site are provided, including descriptions of a recommended mix of retail businesses that could be integrated into the development. Finally, Section 4 provides strategic recommendations for development, based on the market analyses and the general findings on economic viability. These recommendations may be refined somewhat by the output from a basic financial pro forma analysis underway to test the general *financial* viability of the project. Findings from the financial analysis are being prepared under separate cover as a complementary report.

## **Section 1. SITE ASSESSMENT**

The Site Assessment provides a review of factors impacting on the general marketability of the Town Center site for proposed housing and retail mixed-use development, along with associated civic uses. This assessment is based on field reconnaissance, interviews, and other input that focused on such factors as location, access, exposure, existing uses, history, physical environment, design framework, and surrounding uses. The proposed Town Center concept plan provides a basis for understanding the community's preferences for development of this site and its role as a community and civic hub.

### **Location & Background**

The Town Center site is located at the intersection of Lula Lake Road and McFarland Road, in Lookout Mountain, Georgia. The City of Lookout Mountain is named after the dramatic and beautiful ridge where it is located on the Cumberland Plateau. The ridge, which has a high point of nearly 2,400 feet, crosses through Tennessee and Georgia and overlooks downtown Chattanooga. The mountain offers dramatic vistas and sports unique flora and fauna. Aside from being an exceptionally beautiful place, Lookout Mountain played an important role in history as a site of the Civil War Battle of Lookout Mountain. The mountain also achieved fame starting in the 1930s as the home of several well-known private tourist attractions, including Rock City, Ruby Falls, and the Lookout Mountain Incline Railway. These attractions have been marketed throughout the South and beyond. Much of the City of Lookout Mountain, Georgia was originally developed as the Fairyland sub-division by the same family that created Rock City. Today, both Lookout Mountain, Tennessee and Lookout Mountain, Georgia are home to relatively affluent and secluded communities within a short commute of downtown Chattanooga.

### **Access & Exposure**

The Town Center Site is accessed primarily by Lula Lake Road, which extends north and south to Lookout Mountain Scenic Highway (189), a main road along the top of the mountain. Lula Lake Road becomes Hinkle Road further south into Georgia. Route 157 (McFarland Road (west) and Red Riding Hood Trail (east)) intersects Lula Lake Road at the site. These roads traverse Lookout Mountain but offer no exposure beyond mountain traffic itself. Perhaps one-half or less of Lookout Mountain residents commuting to work in Chattanooga or other locations down the mountain will travel south past the site.

Chattanooga has good access for tourism along I-24 (from Nashville and St. Louis) and I-75 (from Knoxville/NE and Atlanta). Many tourists visit sites in downtown Chattanooga (Tennessee Aquarium, Chattanooga Choo Choo, etc) as

well as Lookout Mountain. Tourists and other visitors will travel up Lookout Mountain Scenic Highway, Ochs Highway, or on the Incline Railway to reach the top of the mountain, but only a portion of these visitors will pass directly by the site, mainly en route to or from Rock City. While the site has good access to areas further south into Georgia along the mountain, these areas are relatively sparsely populated and there is little traffic. Overall, Lookout Mountain acts almost like an “island” in terms of access and traffic flow, with only a few “ports” of entry and little traffic exposure to the rest of the Chattanooga Metropolitan Area.

### **Existing Uses**



As noted previously, the site once accommodated a small strip shopping center that served as the commercial heart of the Lookout Mountain, Georgia community. This center housed the Mountain Market (formerly Fairyland Market), a window and blinds store, and a beauty shop in approximately 10,000 square feet of space. A wine shop was operated from within the market. A bakery also operated in the center at one stage. The market offered a meat

counter, and produced casseroles and other hot dishes for take-out.

While the center burned down in a fire in 2007, adjacent uses remain, including the City Hall and a gas station. Around the corner on McFarland is another small strip commercial center accommodating the Lookout Mountain Primary Care clinic and Fairyland Pharmacy, which sells not only healthcare products and medical supplies but also general merchandise including toys, candy, cards, gifts, picture frames, hardware, paint & plumbing supplies, and other items.



### **Adjacent Uses**

Just across the road is Citizens Bank & Trust and nearby is Lookout Mountain Methodist Church, as well as The Oaks (a 24-unit apartment complex). Another 10-unit apartment building is located just behind the former strip center. A small park has been dedicated across Luna Lake Road from the site, and offers a walkway and seating areas. Beyond this small commercial and civic node is a largely residential community of single-family homes on landscaped

lots, many of which offer geological features including large boulders and outcrops from the mountain. Just south of the site is Rock City, a famed tourist attraction that offers visitors a fun, fairytale experience along with the natural beauty of the mountain. Covenant College is situated further to the south, on a scenic peak along the Lookout Mountain ridge. To the north is Lookout Mountain, Tennessee, which has a similar orientation to single-family residential uses on beautiful lots, with a small commercial district situated around the intersection of Lookout Mountain Scenic Highway (TN 148) and Wautaga Lane. The Lookout Mountain Include Railway and Ruby Falls are additional tourist attractions in this area. The plateau at the top of the mountain is surrounded by Chicamauga & Chattanooga National Military Park, specifically the Lookout Mountain Battlefield and Lookout Point. Together, the battlefield park and other visitor attractions help make Lookout Mountain a major tourist hub for the region.

### **Design Framework**

There are various design improvements completed and underway near the site. Across from the site is a small park that offers walkways, vintage lighting and pedestrian amenities in a landscaped setting that forms part of the city's greenway system. This park provides an attractive, walkable amenity associated with the Town Center area. New sidewalks are also being constructed along Luna Lake Road, which will also serve to improve pedestrian access to the park and the site. Surrounding areas are attractive in their own right, with landscaped yards and an attractive church to help establish the civic heart of the community. That being said, local government buildings are functional but otherwise add no particular architectural value as an amenity to the site.



### **Proposed Concept Plan**

After a fire destroyed the small retail center in Lookout Mountain's civic heart, the community worked to establish a plan for redevelopment of the site as a new "walkable" town center. A portion of the plan, completed by the Walker Collaborative, included areas surrounding the intersection of Lula Lake Road and McFarland Road. The planning effort incorporated community input through a charrette process that helped to identify the basic form, function, and design aesthetic preferred by the community. The planning team translated ideas into a conceptual land use plan and architects created renderings of the proposed town center project.

Development scenarios for the site included residential units (condominium or rental apartments), 20,925 square feet of retail space, 4,200 square feet of office, and 11,400 square feet in civic uses (i.e., City Hall, Police Station, and Fire Station), plus parking. New construction of a mixed-use complex would face onto Luna Lake Road.

Artech then translated the proposed Town Center Plan into architectural renderings for construction purposes. These renderings envisioned two primary buildings, one a civic complex and the other a mixed-use building. The mixed-use building is rendered to include 9,420 square feet of ground-floor retail space, along with two one-story flats plus five townhouse units above the retail (for a total of seven residential units). The residential units would have a total of 12,995 square feet (1,856 gross square feet per unit).



*Artech Elevation of Mixed-use Building*

## Summary

Lookout Mountain is a unique, spectacularly beautiful, well-known, and special place. Home to affluent communities of both Tennessee and Georgia, the mountain offers history, unique tourist attractions, scenic vistas, and secluded residential neighborhoods. Many of the factors that help to set Lookout Mountain apart also serve to isolate it as a market. The topography of the mountain has elevated it (literally) above exposure to the broad Metropolitan Chattanooga market. Access is relatively difficult, with only a few, winding mountain roads leading to the site and travel times exceeding 20 minutes from some neighborhoods near the base of the mountain. At the same time, the mountain does offer exposure to a large tourism market, along with students at the local campus of Covenant College. Lookout Mountain is uniquely branded as a tourist attraction and has broad recognition throughout the South and beyond as a travel destination. Thus, the mountain already has an environment and a brand that help to secure a positive image for the site. The following market analyses test the economic viability of the program concept as proposed by the Town Center Plan and refined through architectural renderings, floor plans, and elevations.

## **Section 2. HOUSING MARKET ASSESSMENT**

A housing market assessment was conducted to determine the market potential for condominiums as part of mixed-use development at the site and to assess market support for the proposed project. Site reconnaissance was conducted to place the site in the context of residential development within the Lookout Mountain community and the region. Interviews were conducted with realtors and others to assess the overall housing market and the role of Lookout Mountain within this broader market framework. A housing market area was defined and housing trends analyzed for the area. Demographic trends and forecasts were generated for the market area and key market niches. Based on this demographic analysis, housing demand was forecasted for the market area. The site was examined in terms of its positioning within the competitive market, and its capture of market demand determined. Housing potentials were calculated in terms of the number of units, product mix, and pricing.

### **Housing Market Overview**

An analysis was conducted of existing housing market conditions on Lookout Mountain and more broadly in Metropolitan Chattanooga. Key supply and tenure factors were assessed, along with construction trends, housing sales, pricing, and rentals. Key findings are summarized below.

#### **Housing Supply & Tenure**

Lookout Mountain, Georgia is largely built-out, with few lots remaining for development of new, single-family housing. As a result, housing supply has remained relatively stable for quite some time. There are about 636 housing units in the City of Lookout Mountain, up by eight units or just 1.3% since 1990. Similarly, Lookout Mountain, Tennessee also has a stable supply, with 792 units, or about 3.2% less than it had in 1990. Overall, there are about 1,430 housing units on Lookout Mountain, representing a relatively small housing market base. The vast majority of these units are in single-family dwellings, with only a handful of multi-family developments on the mountain.

Among the more relevant multi-family projects is The Oaks, a condominium development located near the Town Center site on Durand Drive (behind the United Methodist Church). This well-maintained project has 24 units in several attached, 2/3-story buildings built in the 1990s. Several of the units are owned by investors who lease them out to young professionals and students. These units remain mostly leased-up, with only one unit available for lease in early 2011. A separate, ten-unit apartment building built about 1980 is situated behind the site, adjacent to the Fairyland Pharmacy.

Nearby Signal Mountain has a significantly larger housing base, with about 6,200 units, up by over 1,000 units or 19.4% since 1990. Housing supply increased more rapidly between 1990 and 2000, and growth in Signal Mountain’s housing stock has slowed since then. Within Chattanooga’s central business district (CBD) housing market, there are approximately 8,430 units, representing an increase of about 1,060 units or 14.3% since 1990. Much of this growth has occurred since 2000, with the addition of new condominium projects in the downtown area. An increasing number of people such as VW employees from Europe and other parts of the U.S. who are used to living in urban areas, are spurring demand for condominiums and other downtown housing in Chattanooga. Housing stock trends in these four sub-markets are detailed in the following table.

**Table 1. HOUSING UNIT TRENDS, PRIMARY HOUSING MARKET AREA, 1990-2010**

Area	1990	2000	2010	1990-2010 Change	
				Number	Percent
LM-GA	628	657	636	8	1.3%
LM-TN	818	836	792	(26)	-3.2%
Signal Mt	5,198	5,971	6,206	1,008	19.4%
CBD	7,372	7,658	8,429	1,057	14.3%
<b>Total</b>	<b>14,016</b>	<b>15,122</b>	<b>16,063</b>	<b>2,047</b>	<b>14.6%</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics

In the Town of Lookout Mountain, Tennessee, about 89% of the occupied housing stock is homeowner, 11% rental. In 2000, the housing vacancy rate was 5.4%, but only 1.8% of homeowner housing was vacant while nearly 11% of rental housing was vacant. In 2010, there were an estimated 49 vacant housing units (6.2%) overall in the town. In the City of Lookout Mountain, Georgia, 83% of occupied housing stock is owner-occupied, while 17% is rented. In 2000, about 6% of the city’s housing stock was vacant, but the homeowner vacancy rate was only 1.3%. Rental vacancy stood at 8.0%. In 2010, there were an estimated 46 vacant housing units (7.2%) in the city. This compares with a vacancy rate of 5.6% on Signal Mountain and 11.7% in the Chattanooga central business district (CBD) market. Current estimated vacancies are summarized in the following table.



**Table 2. ESTIMATED HOUSING VACANCY,  
PRIMARY HOUSING MARKET AREA, 2010**

<b>Area</b>	<b>Total Units</b>	<b>Vacant</b>	<b>(%)</b>
LM-GA	636	46	7.2%
LM-TN	792	49	6.2%
Signal Mt	6,206	347	5.6%
CBD	8,429	985	11.7%
<b>Total</b>	<b>16,063</b>	<b>1,427</b>	<b>8.9%</b>

Sources: US Bureau of the Census; Claritas, Inc.;  
& Randall Gross / Dev. Economics.

Nearly 40% of the housing stock on the Tennessee side was built prior to 1940, with about two-thirds constructed by 1960. The housing on the Georgia side is about ten years younger, on average, with about two-thirds constructed by 1970. Overall, these numbers suggest that Lookout Mountain has a small, stable, largely owner-occupied housing stock of primarily single-family homes. Lookout Mountain, Georgia has slightly more rental housing stock than its neighbor. Some of this rental housing is occupied by students, along with a few single adults and divorcees.

### **Construction Trends**

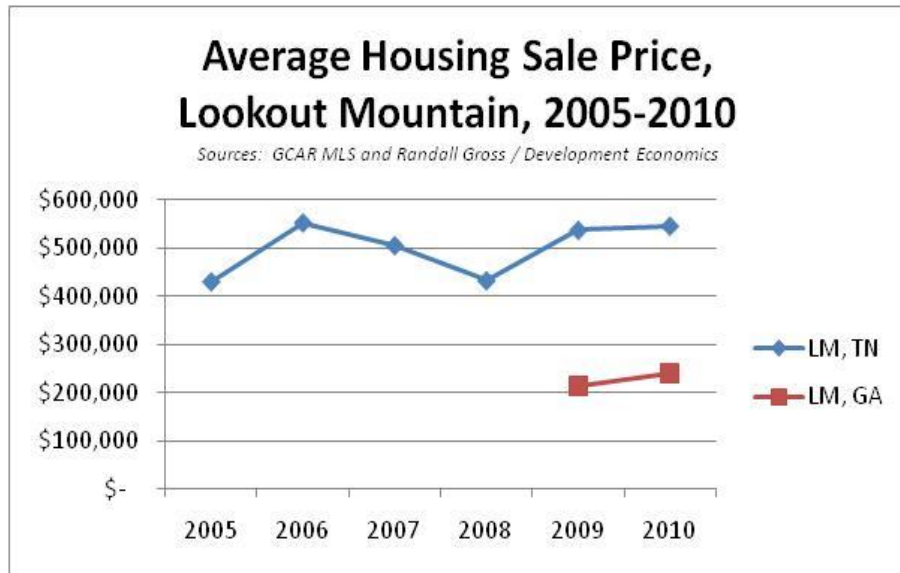
Housing construction trends were analyzed for the Lookout Mountain area and for the Metropolitan Chattanooga region. There has been relatively little housing construction in Lookout Mountain in recent years, with just 66 units built in the two communities atop the mountain. The City of Lookout Mountain, GA permitted 31 units since 1996, for an average of about two units per year. The Town of Lookout Mountain, TN permitted 35 units during that time, or about 2.2 units per year. Meanwhile, communities in the Metropolitan Chattanooga area permitted a total of over 40,700 units since 1996 or 2,546 units per year. Thus, all housing construction on Lookout Mountain during the past 16 years only accounted for 0.16% of the region's housing development. Further, there were 4,085 multi-family housing units permitted in the Chattanooga area since 1996, but no multi-family units were permitted in Lookout Mountain in all of the 16-year period. Housing construction trends are summarized in the Appendix of this report.

**Sales**

Average sales prices on Lookout Mountain have remained relatively stable at high levels throughout the recent real estate cycle. While much of the nation saw rapid appreciation from 2000 through 2006/7, housing prices in Lookout Mountain, Tennessee remained fairly stable and even fell slightly. Since 2008, when prices nationwide have fallen, Lookout Mountain (Tennessee and Georgia) have seen a modest increase in prices. The mountain has seen very little new housing construction in recent years. Given the affluence and stability of this market,

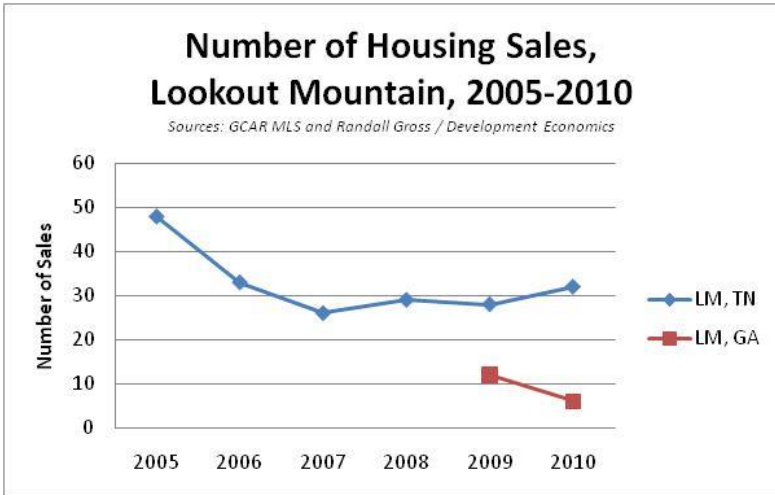
price trends on Lookout Mountain tend to be affected by factors other than the supply and financing issues that are affecting other communities.

Lookout Mountain, Tennessee home prices trend higher



than those on the Georgia side of the mountain. Recent data suggest that housing prices averaged around \$546,000 in Tennessee and \$241,000 in Georgia in 2010. However, the small number of sales in both communities suggests that prices can be easily skewed by outliers and Lookout Mountain, Tennessee saw a sale of \$1.2 million last year. Excluding this one sale, the average fell to about \$420,000. Therefore, housing on the Georgia side had about 57% of the sale price as housing on the Tennessee side. While sale prices have been lower in Georgia than in Tennessee, average housing values are much closer between the two neighboring communities: \$349,110 (GA) versus \$535,500 (TN), with the Georgia homes representing about 65% of the value of Tennessee homes on Lookout Mountain. The housing values and sale prices are indicative of the differential in household incomes for the two communities, with Lookout Mountain, Georgia households at about 61% (\$72,470) of those in Lookout Mountain, Tennessee (\$118,040).

The number of sales has remained relatively low on Lookout Mountain, with a total of only 40 across both jurisdictions in 2009 and the same number in 2010. There has been an average of about 33 sales per year in Lookout Mountain, Tennessee since 2005, although sales volumes fell during 2005-07 and have gradually increased since that time. Lookout Mountain, Georgia is a slightly smaller and less active market, with about 10 sales per year. By comparison, there were 43 sales on Signal Mountain and 73 sales in the CBD in the 4<sup>th</sup> quarter alone in 2010. The few condominium units located in Lookout Mountain rarely change hands, with a number leased out by investors.



### Rental Housing

As noted previously, there is limited rental housing stock on Lookout Mountain, with about 100 renter-occupied housing units in Lookout Mountain, Georgia and about 80 renter-occupied units on the Tennessee side. Most of the purpose-built apartment buildings enjoy relatively high occupancy. According to



managers, about 20% of the rental units are occupied by Covenant College students, who wish to live near campus but not in campus housing. Another +/-20% are children of Lookout Mountain residents or workers, perhaps 10% are divorcees, and the rest a mix of Lookout Mountain workers, single professionals, and others. The majority appear to have a direct link to Lookout Mountain in that they work there, attend school there, or

grew up in the area. Rents tend to average \$450 to \$750 for 2-bedroom / 1.5-bath apartment units, while full houses fetch higher rents. Condo units in The Oaks are renting at about \$350 to \$400 per bedroom and offer fireplaces, decks, and other amenities. In 2000, the median contract rent in Lookout Mountain, GA was \$713, with a current estimated median of \$725. By comparison, Lookout Mountain, Tennessee had median rents of \$594 in 2000. Rents at Signal Crest Apartments on Signal Mountain are averaging \$600 per month.

## **Housing Market Area Definition**

The Town Center site has a unique market position, with a relatively isolated location on the top of a mountain that is only accessible via winding, mountain roads and yet situated within sight of downtown Chattanooga. The housing market is driven to some extent by internal movements on Lookout Mountain, including the two neighboring communities situated on Lookout Mountain itself: the Town of Lookout Mountain, Tennessee and the City of Lookout Mountain, Georgia. The mountain also appeals to empty nesters and affluent homebuyers throughout the region who wish to live in a secluded, mountain-top retreat yet be within minutes of restaurants, nightlife, shopping, and medical facilities. Some affluent families are also drawn to the mountain because of the quality of the local school. As such, the mountain appeals to distinct affluent market niches in the broader region. Some of the residents who would live on Lookout Mountain may also be attracted to housing on Signal Mountain, or to high-amenity downtown living, under the right circumstances. As such, these other areas are also key components of the housing market.

## **Demographic Trends and Forecasts**

Various demographic factors were assessed in order to examine overall market parameters and the base for housing demand in the area. Population, households, and family demographics were examined, along with employment, commutation patterns and other data. More detailed analysis of households in the region was conducted to assess the demand for condominium housing.

### **Population and Household Trends**

Total population within several key geographic segments of the market has increased by about 2,800 or 9.0% between 1990 and 2010, with the greatest increase since 2000. While the population of Lookout Mountain has fallen by about 100, there has been significant growth in population in Signal Mountain and in Chattanooga's central business district (CBD). As noted before, downtown Chattanooga has seen an increase in demand for condominium units spurred by an interest in urban living and dramatic improvements in the amenity value and quality of life in downtown Chattanooga over the past 20 years. Population trends within these sample target markets are summarized in the table shown on the following page.

**Table 3. POPULATION TRENDS, PRIMARY HOUSING MARKET AREA, 1990-2010**

Area	1990	2000	2010	1990-2010 Change	
				Number	Percent
LM-GA	1,607	1,617	1,504	(103)	-6.4%
LM-TN	1,901	2,000	1,910	9	0.5%
Signal Mt	13,300	14,781	15,043	1,743	13.1%
CBD	14,077	14,389	15,207	1,130	8.0%
<b>Total</b>	<b>30,885</b>	<b>32,787</b>	<b>33,664</b>	<b>2,779</b>	<b>9.0%</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics

Growth in households has been more substantial, partly because of the declining average size of households. Fewer people-per-household helps spur growth in the number of households, which in turn generates demand for housing. Even though Lookout Mountain (GA)'s population fell since 1990, the household base has remained relatively stable at about 600. This is due to the declining average household size in Lookout Mountain (GA). The opposite is true for Lookout Mountain, TN where average household size increased between 1990 and 2010, and the number of households actually fell by about 4%. Growth in population, coupled with declining household size, helped propel household growth in both Signal Mountain and the CBD. Overall, households increased in these areas by about 2,200 or 17%.

**Table 4. HOUSEHOLD TRENDS, PRIMARY HOUSING MARKET AREA, 1990-2010**

Area	1990	2000	2010	1990-2010 Change	
				Number	Percent
LM-GA	592	618	590	(2)	-0.3%
LM-TN	774	791	743	(31)	-4.0%
Signal Mt	4,866	5,659	5,859	993	20.4%
CBD	6,278	6,876	7,444	1,166	18.6%
<b>Total</b>	<b>12,510</b>	<b>13,944</b>	<b>14,636</b>	<b>2,126</b>	<b>17.0%</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics

## Family Trends

Growth in the number of families with children has been slower than that for households overall, suggesting that non-family households are driving the market for housing. Non-family households can include empty nesters (parents whose children have “left the nest” and now live elsewhere), many of whom are part of the “baby boom” generation that dominates America’s demographic landscape. Other non-family households include single professionals and others who may work in downtown Chattanooga, “DINKs” (dual-income married working couples with no kids), retirees, divorcees, off-campus students, and others.

**Table 5. FAMILY TRENDS, PRIMARY HOUSING MARKET AREA,  
1990-2010**

Area	1990	2000	2010	1990-2010 Change	
				Number	Percent
LM-GA	464	441	417	(47)	-10.1%
LM-TN	555	586	548	(7)	-1.3%
Signal Mt	3,905	4,300	4,464	559	14.3%
CBD	3,577	3,418	3,661	84	2.3%
<b>Total</b>	<b>8,501</b>	<b>8,745</b>	<b>9,090</b>	<b>589</b>	<b>6.9%</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross /  
Development Economics

Overall, the number of families in these areas increased by about 600 or 6.9% since 1990, well below the overall growth rate for households of 17%. Families with children accounted for just 28% of household growth over the period.

## Population and Household Forecasts

Within these selected markets, population is forecasted to increase by about 1.7% or 600 over the next ten years, according to Claritas, Inc. The population of Lookout Mountain is projected to decline, although the Claritas forecasts do not account for the potential redevelopment of the Town Center site. Claritas also anticipates that Signal Mountain’s population would increase by 2015, but decline again by 2020 due to demographic shifts. The CBD population base is expected to continue increasing, mainly due to growing demand for urban living and a continually improving amenity-driven environment in downtown Chattanooga.

Table 6. POPULATION FORECASTS, PRIMARY HOUSING MARKET AREA,  
2010-2020

Area	2010	2015	2020	2010-2020 Change	
				Number	Percent
LM-GA	1,504	1,455	1,380	(124)	-8.3%
LM-TN	1,910	1,874	1,793	(117)	-6.1%
Signal Mt	15,043	15,192	14,987	(56)	-0.4%
CBD	15,207	15,563	16,062	855	5.6%
<b>Total</b>	<b>33,664</b>	<b>34,084</b>	<b>34,222</b>	<b>558</b>	<b>1.7%</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross /  
Development Economics

Average household size will continue to decrease slightly in certain areas over the next ten years and the number of households will increase at a faster rate than population. These areas will add about 370 households or 2.5% by 2020. Again, Claritas, which bases its forecasts on demographic models and regional projections, has not accounted for the possible redevelopment of the Town Center site in Lookout Mountain, Georgia.

Table 7. HOUSEHOLD FORECASTS, PRIMARY HOUSING MARKET AREA,  
2010-2020

Area	2010	2015	2020	2010-2020 Change	
				Number	Percent
LM-GA	590	576	549	(41)	-6.9%
LM-TN	743	719	681	(62)	-8.4%
Signal Mt	5,859	5,945	5,843	(16)	-0.3%
CBD	7,444	7,694	7,928	484	6.5%
<b>Total</b>	<b>14,636</b>	<b>14,934</b>	<b>15,001</b>	<b>365</b>	<b>2.5%</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross /  
Development Economics

## Employment & Commutation Patterns

Most of Lookout Mountain's workers commute into downtown Chattanooga and surrounding areas, although there is likely to be a growing number of people employed as managers at new manufacturing facilities (e.g., Volkswagen) in the area. There are several large corporate offices in Chattanooga, including Tennessee Valley Authority (TVA), Krystal, Olan Mills, Double Cola, Harbor Master Boats, Coker Tire, CBL & Associates, Chattem,

Covenant Transport, Gordon Biersch Brewery Restaurant Group, U.S. Xpress, Inc, National Model Railroad Association, Unum , BlueCross BlueShield of Tennessee, Coptix, The Chattanooga Bakery , Litespeed, Tricycle Inc., Miller Industries, and Southern Champion Tray, LP. Lookout Mountain residents often work in management at one of these corporate offices or at downtown banks and as doctors, lawyers and other professionals. About 8% of Lookout Mountain residents telecommute full-time, which is relatively high compared to national averages.

## **Housing Demand**

Housing demand was determined based on the forecasted change in target household base within key demographic niches. Specific focus was given to those households with \$75,000 in annual income or higher. This group is most representative of the household base on Lookout Mountain (and Signal Mountain) at present, and represents the income group most likely to have the disposable income necessary to commute from a mountain-top location. Key age factors are also considered, as empty nesters would be a primary target market for condominium living in a mixed-use environment in a mountain location. Householders over age 80/85 are unlikely to purchase housing in a mountain location, even as people live longer and healthier lives. Younger professionals are also part of the potential market, although the numbers of young people with the requisite income and propensity to purchase housing in this location is fairly small. Key household forecasts are provided below yielding a basic forecast of housing demand in the market area.

### **Household Forecasts by Age and Income**

The number of households was forecasted by age and income for Metropolitan Chattanooga, through 2016. Specific focus was given to households under the age of 80 having incomes above \$75,000 per year. The change in households (meaning net new households) was then determined over the five-year period through 2016. During that period, Metro Chattanooga should add almost 9,500 households within these income and age cohorts. The largest share of net new householders will be between the ages of 55 and 64. The numbers of net new households decreases by income, so the lowest household income cohort (\$75,000 to \$100,000) will yield the largest number of new households, 2,622, over the next five years. By comparison, there would only be about 1,300 net new households in the Metro area with household incomes over \$200,000. Of these, only eight householders will be 24 years of age or below and most will be between the ages of 45 and 64. These household forecasts are detailed in the following table.



**Table 8. FORECASTED HOUSEHOLD CHANGE BY AGE AND INCOME, METRO CHATTANOOGA, TN-GA, 2011-2016**

Age	\$75-100k	\$100-125	\$125-150	\$150-200	\$200+	TOTAL
15-24	132	63	36	23	8	<b>262</b>
25-34	615	447	194	115	76	<b>1,447</b>
35-44	174	392	493	167	169	<b>1,395</b>
45-54	(102)	203	378	378	301	<b>1,158</b>
55-64	781	620	518	403	427	<b>2,749</b>
65-74	844	387	266	167	288	<b>1,952</b>
75-84	178	90	90	42	74	<b>474</b>
<b>TOTAL</b>	<b>2,622</b>	<b>2,202</b>	<b>1,975</b>	<b>1,295</b>	<b>1,343</b>	<b>9,437</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics.

**Mountain Areas.** Similar forecasts were generated for the “mountain areas” including Lookout Mountain (TN), Lookout Mountain (GA), and Signal Mountain. In Lookout Mountain (GA), only four net new households with incomes above \$75,000 are forecasted through 2016. Again, these forecasts do not account for potential new development of the Town Center site.

**Table 9. FORECASTED HOUSEHOLD CHANGE BY AGE AND INCOME, LOOKOUT MOUNTAIN, GA, 2011-2016**

Age	\$75-100k	\$100-125	\$125-150	\$150-200	\$200+	TOTAL
15-24	1	-	-	-	-	<b>1</b>
25-34	1	(4)	5	1	1	<b>4</b>
35-44	(1)	(4)	1	(1)	(2)	<b>(7)</b>
45-54	-	(4)	3	(5)	1	<b>(5)</b>
55-64	(4)	-	(4)	10	3	<b>5</b>
65-74	1	2	3	(1)	2	<b>7</b>
75-84	(3)	-	-	2	-	<b>(1)</b>
<b>TOTAL</b>	<b>(5)</b>	<b>(10)</b>	<b>8</b>	<b>6</b>	<b>5</b>	<b>4</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics.

The new households in Lookout Mountain (GA) would have household incomes of over \$125,000 and would generally fall within the age ranges of 55 to 74 (empty nesters) or would be under the age of 35 (such as children of Lookout Mountain families). While the overall household base may decline in Lookout Mountain, the number of households within this target income and age range is forecasted to increase slightly. This change would occur in the absence of any intervention, such as development of new housing at the Town Center site.

Lookout Mountain (TN) will actually see a slight decrease in the number of households within some of these income cohorts and age ranges. However, the numbers of households with incomes above \$150,000 will increase, as will the number of households over age 55 and under age 35.

**Table 10. FORECASTED HOUSEHOLD CHANGE BY AGE AND INCOME,  
LOOKOUT MOUNTAIN, TN, 2011-2016**

<b>Age</b>	<b>\$75-100k</b>	<b>\$100-125</b>	<b>\$125-150</b>	<b>\$150-200</b>	<b>\$200+</b>	<b>TOTAL</b>
15-24	1	-	-	-	-	<b>1</b>
25-34	5	5	4	5	7	<b>26</b>
35-44	(1)	(3)	(6)	1	(6)	<b>(15)</b>
45-54	(5)	(8)	(4)	(3)	(16)	<b>(36)</b>
55-64	(3)	-	(1)	(1)	8	<b>3</b>
65-74	-	(1)	2	4	13	<b>18</b>
75-84	-	(2)	1	-	1	<b>-</b>
<b>TOTAL</b>	<b>(3)</b>	<b>(9)</b>	<b>(4)</b>	<b>6</b>	<b>7</b>	<b>(3)</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross /  
Development Economics.

Signal Mountain will see an increase of about 22 households in these income and age cohorts. While most age cohorts will see growth, there will be a dramatic decrease in householders age 35 to 54. This relates to the aging of the population and the lack of households with incomes to fill the gap left by these mid-age householders (mainly with incomes below \$100,000). Nevertheless, there will be an increase in all other income categories and in householders aged 55 and above or 34 and below. These forecasted demographic changes are indicated on the table that follows.

**Table 11. FORECASTED HOUSEHOLD CHANGE BY AGE AND INCOME, SIGNAL MOUNTAIN, TN, 2011-2016**

<b>Age</b>	<b>\$75-100k</b>	<b>\$100-125</b>	<b>\$125-150</b>	<b>\$150-200</b>	<b>\$200+</b>	<b>TOTAL</b>
15-24	1	-	-	-	-	<b>1</b>
25-34	39	25	5	-	2	<b>71</b>
35-44	(24)	(18)	1	(3)	(7)	<b>(51)</b>
45-54	(39)	(25)	(18)	(15)	(11)	<b>(108)</b>
55-64	(5)	9	5	16	23	<b>48</b>
65-74	9	9	10	15	12	<b>55</b>
75-84	(2)	4	-	1	3	<b>6</b>
<b>TOTAL</b>	<b>(21)</b>	<b>4</b>	<b>3</b>	<b>14</b>	<b>22</b>	<b>22</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics.

Altogether, the “mountain areas” will see an increase of about 23 households with incomes of over \$75,000 by 2016, assuming that there is no intervention in the market to direct growth in these areas. There will be an increase in the number of households with incomes above \$125,000 and of householders within the age cohorts of over 55 and under 35, as shown below.

**Table 12. FORECASTED HOUSEHOLD CHANGE BY AGE AND INCOME, MOUNTAIN AREAS, CHATTANOOGA, 2011-2016**

<b>Age</b>	<b>\$75-100k</b>	<b>\$100-125</b>	<b>\$125-150</b>	<b>\$150-200</b>	<b>\$200+</b>	<b>TOTAL</b>
15-24	3	-	-	-	-	<b>3</b>
25-34	45	26	14	6	10	<b>101</b>
35-44	(26)	(25)	(4)	(3)	(15)	<b>(73)</b>
45-54	(44)	(37)	(19)	(23)	(26)	<b>(149)</b>
55-64	(12)	9	-	25	34	<b>56</b>
65-74	10	10	15	18	27	<b>80</b>
75-84	(5)	2	1	3	4	<b>5</b>
<b>TOTAL</b>	<b>(29)</b>	<b>(15)</b>	<b>7</b>	<b>26</b>	<b>34</b>	<b>23</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics.

These mountain communities will have a significant share of Metropolitan Chattanooga household growth, among households with incomes of \$75,000 to \$100,000 as well as those having incomes above \$150,000. Among these high-income groups, the mountain communities will also have a high share of household growth among householders aged 25 to 35, and of those over age 55.

**Table 13. SHARE OF REGIONAL HOUSEHOLD CHANGE BY AGE & INCOME, MOUNTAIN AREAS, CHATTANOOGA, 2011-2016**

SHARE	\$75-100K	\$100-125	\$125-150	\$150-200	\$200+	TOTAL
15-24	2%	0%	0%	0%	0%	2%
25-34	7%	6%	7%	5%	13%	39%
35-44	-15%	-6%	-1%	-2%	-9%	-33%
45-54	43%	-18%	-5%	-6%	-9%	5%
55-64	-2%	1%	0%	6%	8%	14%
65-74	1%	3%	6%	11%	9%	30%
75-84	-3%	2%	1%	7%	5%	13%
<b>TOTAL</b>	<b>35%</b>	<b>-13%</b>	<b>8%</b>	<b>21%</b>	<b>18%</b>	

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics.

In general, these data suggest that the mountain areas will see modest growth in their affluent household base, particularly among empty nesters and their children. The mountain areas are among the most affluent in the Metropolitan Chattanooga region and will account for a significant share of the growth in affluent households over the next five years.

### **Type of Housing Product**

Only a small share of the region's households is in condominium and other non-single-family housing products. Metro Chattanooga has about 228,000 housing units, with an overall occupancy rate of 89.5%. Of the occupied housing, about 143,000 units or 69.8% are owner-occupied. Of this number, only about 700 units or **0.5%** are in multi-family condominium ownership, of which only 30 are located in the Georgia portions of the market. There is also another 3,600 (2.5%) attached (townhouse) units, and 950 (0.7%) 2, 3, and 4-unit buildings.

The small numbers of multi-family, owner-occupied housing suggest a low level of experience and preference for this type of housing in the market to-date. That being said, there has been recent growth in the number of condominium units being added, especially in the downtown market, due in part to an influx of newcomers and young Chattanoogaans with a preference for urban living. The

condominium market is highly cyclical and dependent on factors such as the availability of financing, escalation rates among single-family homes, demographic shifts, and changes in the environment for urban living. Of late, financing and escalation rates have become weak as drivers in this market, although demographic shifts and ongoing improvements in the environment for urban living will help lift demand for multi-family and attached homeownership product.

**Table 14. HOUSING PRODUCT BY TENURE AND TYPE,  
METROPOLITAN CHATTANOOGA, 2010**

<b>Factor</b>	<b>Metro (TN)</b>	<b>Metro (GA)</b>	<b>TOTAL</b>	<b>Share</b>
Housing Units	167,129	61,123	228,252	
Occupied HU	149,340	54,871	204,211	
Owner	101,564	40,937	142,501	
<b>Condo</b>	<b>663</b>	<b>30</b>	<b>693</b>	<b>0.5%</b>
Attached	2,871	731	3,602	2.5%
2-4 Unit	795	159	954	0.7%

Sources: U.S. Bureau of the Census and Randall Gross /  
Development Economics.

Based on the household forecasts within target income and age cohorts, and on the propensity for local households to purchase condominium product, the number of condominium households was forecasted through 2016. Within the “mountain areas,” without intervention, there would be limited demand for condominium housing among the target cohorts over the next five years.

However, Metro Chattanooga overall and downtown in particular, will see some nominal growth in condominium demand among key cohorts totaling approximately **30 to 40 units** by 2016. Much of this demand would be generated by householders within the 55 to 64 age cohort, but there would be some nominal demand generated by householders over 25 and less than 75. In addition, the demand would be generated by households in all income brackets over \$75,000, with the largest numbers in the relatively lower-income cohorts of \$75,000 to \$100,000 and from \$100,000 to \$150,000. Overall condominium household growth forecasts are summarized by age and income for the Chattanooga Metro Area in the table that follows.

**Table 15. NEW CONDOMINIUM HOUSEHOLD FORECASTS BY AGE AND INCOME, CHATTANOOGA METRO AREA, 2011-2016**

METRO	\$75-100k	\$100-125	\$125-150	\$150-200	\$200+	TOTAL
15-24	0	0	0	0	0	0
25-34	2	1	0	0	0	4
35-44	1	1	2	1	1	5
45-54	(0)	1	1	1	1	4
55-64	3	2	2	2	2	10
65-74	3	2	1	1	1	8
75-84	1	0	0	0	0	2
<b>TOTAL</b>	<b>9</b>	<b>7</b>	<b>7</b>	<b>5</b>	<b>5</b>	<b>33</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics.

In addition to condominiums, there would also be some demand generated by the net new growth in target households that prefer townhouse ownership. Within the “mountain areas,” this number will remain small, at perhaps four units overall (without any intervention in the market). But in the Metro Chattanooga area as a whole, there will be a net increase of about 170 households that will prefer to purchase a townhouse in the next five years.

**Table 16. NEW TOWNHOUSE HOUSEHOLD FORECASTS BY AGE AND INCOME, CHATTANOOGA METRO AREA, 2011-2016**

Age	\$75-100k	\$100-125	\$125-150	\$150-200	\$200+	TOTAL
15-24	1	0	0	0	0	1
25-34	8	6	2	1	1	19
35-44	3	7	8	3	3	24
45-54	(2)	4	7	7	6	22
55-64	15	12	10	8	8	54
65-74	17	8	5	3	6	39
75-84	4	2	2	1	2	10
<b>TOTAL</b>	<b>46</b>	<b>39</b>	<b>36</b>	<b>24</b>	<b>25</b>	<b>169</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics.

Again, demand for this product will be deepest among those at the lower end of the affluent income cohorts, namely between \$75,000 and \$100,000, but there will be demand in all income categories. Similarly, householders aged 55 to 64 will represent the largest group of potential buyers, but there will be some nominal demand generated by households in most age cohorts, from 25 through 84.

### **Demand in Mountain Areas**

Demand for attached and condominium product within the “mountain areas” was forecasted not based on the current housing mix in those areas but rather, based on their potential “fair share” of total market demand. In other words, mountain area housing demand was forecasted based on their share of overall condo and townhouse housing demand among the affluent populations.

**Table 17. NEW CONDO/TH HOUSING DEMAND FORECASTS BY AGE AND INCOME, MOUNTAIN AREAS OF CHATTANOOGA, 2011-2016**

Age	\$75-100k	\$100-125	\$125-150	\$150-200	\$200+	TOTAL
15-24	0	0	0	0	0	0
25-34	4	3	1	1	0	9
35-44	(1)	(3)	(3)	(1)	(1)	(9)
45-54	(0)	0	0	0	0	1
55-64	3	2	2	1	1	9
65-74	6	3	2	1	2	14
75-84	1	0	0	0	0	2
<b>TOTAL</b>	<b>12</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>3</b>	<b>25</b>

Sources: US Bureau of the Census; Claritas, Inc.; and Randall Gross / Development Economics.

Based on this analysis, there would be demand for about 25 condominium and townhouse housing units in the “mountain areas” by 2016. Much of this demand will be generated by householders within the 65 to 74 age cohort, as well as those in the 25 to 34 and 55 to 64 age brackets. Further, most demand would be generated by households with incomes in the \$75,000 to \$100,000 range, but there will be some nominal demand in all income cohorts.

**Investor Units.** A significant share of the market for condominiums in Lookout Mountain and the other “mountain areas” is oriented to investor units, often leased for students, workers, and children of local families. It is estimated that about 35% to 40% of the condominium units in these areas are held for

investment. Current rental vacancy in the mountain areas is relatively low, especially in condominiums. Therefore, there is likely demand for a maximum of up to about 35 condominiums and attached dwellings in the mountain areas by 2016, including both owner-occupied and investment units. Of these, there would be demand for only 6 to 10 condominium units in multi-family buildings.

### **Competitive Framework**

There are relatively few condominium and townhouse developments in the “mountain areas” around Chattanooga. The Oaks is a 24-unit condominium located adjacent to the Town Center Site in Lookout Mountain, but its units are rarely for sale on the market. At present, there are one or two 2-bedroom units available for rent in the range of \$350 to \$400 per bedroom (\$800 per unit). Jamestowne is a condominium development on Signal Mountain with 2-bedroom / 2-bath units. Smaller units have about 1,730 square feet and sell in the range of \$225,000. A 2,700 square-foot unit is currently listed for \$285,000. As such, these units are priced at about \$105 to \$130 per square foot. There are several new condominium developments in downtown Chattanooga that are competitive for condo buyers but are not targeted at the segment oriented to mountain living.



### **Site Potentials**

Based on the competitive assessment, the potential housing demand for the Town Center site was determined. This assessment determined that the Lookout Mountain Town Center Site could likely capture demand for up to 50% (5) of the condominium units, if developed and marketed as part of the broader Town Center project, including retail amenities and an attractive environment as envisioned by the community. These condos would include several investment units marketed for lease by students, workers, children of LM families, and as holiday rentals. It would be less likely that the site would capture a significant share of the attached dwelling (i.e., townhouse) portion of the market base unless the units are aggressively marketed as a lifestyle product for families (townhouses) or retirees (patio-style homes). Even then, some of this demand could be captured on Signal Mountain or other competitive locations. There is



also the probability that some of this demand would help take up some of the homes that have gone into foreclosure on Signal Mountain in recent years. Overall, the site could capture about 10% to 20% of the townhouse demand at most, or another 2 to 5 units, for a total of 7 to 10 townhouse/condominium units at the site.

### **Product**

Given the limited scale of demand for housing at the site over the next 5 to 7 years, it would be anticipated that the condominium units could be developed as a mix of live-work spaces (appealing to the local propensity for telecommuting from the mountain), upper-floor “loft” units (as envisioned in the Town Center Plan), and/or attached townhouses *adjacent* to the commercial space. The most efficient construction, from a development perspective, would be upper-floor or live-work spaces that can be integrated easily into a single, mixed-use building. That being said, such a product would not appeal to those that prefer a townhouse or attached unit, and overall development potential would be closer to about 5 to 7 units. If townhouse units were to be developed, they would primarily appeal if constructed adjacent to the commercial space rather than in “stacked” fashion above the retail space.

### **Pricing**

Pricing for these units would range from \$185,000 to \$320,000, in order for smaller units to yield an after-tax investment rental price in the \$800 to \$900 range comparable to (but newer and more amenity-driven than) existing multi-family housing near the Town Center Site. These units would appeal to students, singles, seasonal renters, and young professionals. Larger and pricier units would be marketed more for owner-occupancy, particularly for telecommuters and empty nesters.

## **Summary**

This housing market assessment has focused on testing the market potential for condominium housing at the Town Center site, as envisioned by the Town Center Plan. That plan proposed integration of condominium units (which might also be rented) into a mixed-use project that also included retail and civic functions. The follow-up architectural drawings suggest a mixed-use building with seven residential units, including two flats and five townhouses “stacked” above the commercial space. Based on this market study, there may be an opportunity for development of about 7 to 10 condominium and/or townhouse units at the site so long as the project offers a high-amenity environment including attractive retail uses and civic space. The housing development is most likely to appeal to high-income telecommuters and empty nesters, as well as Covenant College students and others who may lease investor units. Given the target market base, a live-work unit or upper-floor “loft” space would have the most appeal. A few others in

the market would prefer a townhouse or other form of attached unit, but these would be more difficult to integrate efficiently into a mixed-use project, from a development perspective. Development of townhouses adjacent to the commercial uses would be preferred to a “stacked” approach of townhouses above commercial space. Potential for the retail / commercial component of this mixed-use project is tested in the section that follows to help provide an overall perspective on the mixed-use potentials for the site.

### **Section 3. RETAIL MARKET ASSESSMENT**

This section provides findings from a retail market assessment, which determined the economic potential for retail uses as part of a mixed-use development at the Town Center Site. Existing retail market conditions were assessed and interviews conducted with retailers and brokers active in the local retail market. Based on site reconnaissance and other inputs, a trade area for the site was defined and retail expenditure potentials were forecasted for households within this trade area. Other niche markets were also defined and assessed, including tourists and students that generate demand for retail at the site. Competitive retail nodes were inventoried and analyzed in order to determine the site capture and market potential. Sales potential was translated into square feet by type of retail establishment and an appropriate retail mix was recommended for the site. The findings are summarized below.

#### **Existing Market Conditions**

Despite the volatile economic conditions of the past two years, the Chattanooga retail market has remained relatively stable. Vacancy has increased slightly to 6/7%, such as with the closing of a few Bi-Lo groceries and other chain anchors. However, the region's recent economic growth, spurred by Volkswagen, Amazon, Alstom, and other development, has helped to balance the impact of the national economic downturn on the local economy. Overall, rents have remained stable during the past few years, with suburban line shops leasing for \$16 to \$17 per square foot (Triple Net) and anchors leasing for \$9.00 to \$9.50. Downtown retail has performed well due to continued growth in Chattanooga tourism, again at a time when tourism spending has declined in other parts of Tennessee and Georgia. Despite the health of the commercial market for leasing, commercial sales have declined significantly since prices were inflated at the height of the market by an average 35%, according to brokers. Regardless of what is happening in Chattanooga, Lookout Mountain is its own market, and retailers there are impacted more by the demographics and preferences of the local population than by regional trends.

#### **Trade Area Definition**

Demand for retail uses at the Town Center Site will be generated mainly by households within the primary trade area. Additional demand would be generated by local students and through "in-flow" of tourists and other destination visitors from outside of the primary trade area. The geographic boundaries of the primary trade area are typically defined based on a number of factors including transportation access, driving times, natural and artificial barriers, development clusters, commutation patterns, perceptions, and other inputs.

Lookout Mountain is very unique in this respect because it functions like an “island,” from a market perspective. Its location, literally atop a mountain, means that market exposure to the site is limited due to topography, distance, travel time, and access. This is particularly true for convenience goods stores, which rely on convenient access for “spur-of-the-moment” purchases of everyday goods. The ordinary consumer will not travel 20 minutes up to the top of a mountain to purchase a gallon of milk and a loaf of bread, especially when those items are readily available where they live. It is even unlikely that many households will regularly purchase shopper’s goods (items for which they comparison shop) by driving up and down mountains to compare prices. Interviews with some shop workers on Lookout Mountain confirm that a relatively small share of their sales (ranging from 0% to 18%) is generated by residents from other areas in the region, mainly downtown Chattanooga and Signal Mountain, with restaurants capturing most of that trade.

The retail trade area is therefore clearly defined by the mountain itself, with some inflow from surrounding areas. For the purposes of analysis, the primary trade area is disaggregated into two main components: Lookout Mountain, Tennessee and Lookout Mountain, Georgia.

Again, there is the potential for inflow to the Trade Area from households in downtown Chattanooga, Signal Mountain, and the surrounding area, especially for destination goods or restaurants. There would also be sales generated by some of the thousands of tourists who visit Lookout Mountain each year. But, most retail sales at the Town Center site would be generated by residents of Lookout Mountain itself.

## **Retail Expenditure Potentials**

The retail expenditure potentials of all households within the primary trade area were determined through 2016. These expenditure potentials were determined based on demographic forecasts and on the share of total income typically spent by trade area households on various types of retail goods and services.

### **Demographic Trends**

Demographic trends and forecasts were examined for the primary trade area, including Lookout Mountain, Tennessee and Lookout Mountain, Georgia as well as for downtown Chattanooga (as a source of inflow sales). Particular focus was given to population, households, and household income data for these areas.

**Lookout Mountain, Georgia.** Lookout Mountain has an estimated 2010 population of about 1,500. The town’s population had increased slightly between 1990 and 2000, but has since fallen back a bit. Overall, the population is down by

about 100 people since 1990, a decrease of 6.4%. By comparison, the town’s household base has remained relatively constant at 590. The household base did not decline with population because average household size (2.55) has fallen somewhat since 1990 (2.72). There may be more “empty nester” households where the children have left home to live elsewhere, leaving one or two parents behind. Or, families are simply having fewer children than they did in 1990. For whatever reason, Lookout Mountain households have fewer people than they did in 1990. Household incomes have increased since 1990, but after factoring for inflation, real incomes have actually declined over this 20-year period. Average household incomes are still relatively high, at about \$105,400. But, this number is down by \$16,800 or 13.8% in real terms since 1990.

**Table 18. DEMOGRAPHIC TRENDS, RETAIL TRADE AREA, LOOKOUT MOUNTAIN SITE, 1990-2010**

Factor	1990	2000	2010	1990-2010 Change	
				Number	Percent
<u>L Mtn. GA</u>					
Population	1,607	1,617	1,504	(103)	-6.4%
Households	592	618	590	(2)	-0.3%
HH Income	\$ 122,192	\$ 111,239	\$ 105,377	\$ (16,815)	-13.8%
<u>L Mtn. TN</u>					
Population	1,901	2,000	1,910	9	0.5%
Households	774	791	743	(31)	-4.0%
HH Income	\$ 178,114	\$ 206,045	\$ 168,991	\$ (9,123)	-5.1%
<u>Downtown</u>					
Population	14,077	14,389	15,207	1,130	8.0%
Households	6,278	6,876	7,444	1,166	18.6%
HH Income	\$ 63,095	\$ 65,136	\$ 59,453	\$ (3,642)	-5.8%

Note: Income expressed in constant 2010 dollars.

Sources: Claritas, Inc. and Randall Gross / Development Economics.

**Lookout Mountain, Tennessee.** Within the Tennessee portion of the trade area, population actually increased from 1990 to 2010, but only by about 10 people or 0.5%. Surprisingly, the household base shrank by 31 or 4.0%, to about 740. Here, the opposite demographic patterns appear to be underway, namely that household size is increasing along with population. Incomes in this portion of the trade area are among the highest in the state of Tennessee, at nearly \$170,000 (after having peaked at \$206,000 in 2000). While incomes are down in this area, the overall decrease has been less severe than in Lookout Mountain, Georgia.

**Downtown Chattanooga.** While not part of the primary trade area, it is important to look at downtown Chattanooga as a potential nearby source of sales

“inflow” to the site. Residents of downtown Chattanooga are located proximate to the mountain and have better access than other areas of the region. Downtown residents (along with residents of Signal Mountain) tend to have more exposure to the mountain and perhaps more willingness to venture up and down on a somewhat regular basis. This is also a relatively large and growing market base, with about 15,200 residents and 7,450 households in the downtown area.

Downtown population growth appears to be accelerating as more people rediscover the benefits of living in a revitalized downtown. Since 1990, downtown population has increased by over 1,100 or 8%, and the household base has increased by 1,200 or 18.6%. Here, it is apparent that downtown living has appealed to smaller households including singles, retirees and divorcees. Shrinking household size coupled with new housing development has led to rapid growth in the number of households in the downtown area. Downtown incomes are much lower, on average, than those on Lookout Mountain, even though they are still higher than national averages. While incomes have fallen downtown in real terms (as they have on the mountain), the change is not as significant. In fact, downtown incomes were increasing throughout the 1990s and have only fallen since 2000 (in part due to the impact of two recessions this decade).

**Demographic Forecasts**

Lookout Mountain is expected to continue losing population and household base, although at a somewhat slower rate of decline. Between 2011 and 2016, Lookout Mountain, Georgia is forecasted to lose about 50 residents (3.3%) but less than ten households (1.4%). Similarly, Lookout Mountain, Tennessee will lose about 40 residents (1.9%) and 14 households (2.0%). Incomes are expected to increase somewhat, although higher inflation could impact on the forecasts for real income growth.

**Table 19. DEMOGRAPHIC FORECASTS, RETAIL TRADE AREA, LOOKOUT MOUNTAIN SITE, 2011-2016**

Factor	2011	2016	2011-2016 Change	
			Number	Percent
<u>L Mtn, GA</u>				
Population	1,494	1,445	(49)	-3.3%
Households	587	579	(8)	-1.4%
HH Income	\$ 103,967	\$ 110,076	\$ 6,109	5.9%
<u>L Mtn, TN</u>				
Population	1,903	1,867	(36)	-1.9%
Households	738	724	(14)	-2.0%
HH Income	\$ 167,113	\$ 175,250	\$ 8,137	4.9%
<u>Downtown</u>				
Population	15,278	15,634	356	2.3%
Households	7,494	7,644	150	2.0%
HH Income	\$ 58,664	\$ 62,082	\$ 3,417	5.8%

Note: Income expressed in constant 2007 dollars.

Sources: Claritas, Inc. & Randall Gross / Development Econ.

Downtown Chattanooga is expected to continue growing, albeit more slowly than in recent years, with the addition of about 360 residents and 150 households over the next five years. Household incomes will remain much lower than those on Lookout Mountain, but will growth (depending on inflation) by up to 5.8%.

## TPI

Total Personal Income (TPI) was calculated and forecasted for the trade area based on the household and income forecasts discussed above. In 2011, TPI totals \$184,412,000 within the primary trade area, not including another \$439,630,000 in downtown Chattanooga. Trade Area TPI is expected to increase by \$6,146,000 to \$190,558,000 by 2016. Meanwhile, downtown TPI will increase by nearly \$35 million or about 8.0% by 2016, a significant increase.

**Table 20. TPI FORECASTS, LOOKOUT MOUNTAIN SITE  
PRIMARY TRADE AREAS, 2011-2016**

Trade Area	TPI (000)		2011-2016 Change	
	2011	2016	Amount	Percent
L Mtn, GA	\$ 61,049	\$ 63,712	\$ 2,663	4.4%
L Mtn, TN	\$ 123,363	\$ 126,846	\$ 3,483	2.8%
Downtown	\$ 439,630	\$ 474,552	\$ 34,922	7.9%
<b>Total</b>	<b>\$ 624,042</b>	<b>\$ 665,110</b>	<b>\$ 41,068</b>	<b>6.6%</b>

Notes: Total personal income (TPI) expressed in thousands of constant 2010 dollars.

Source: Randall Gross / Development Economics.

## Retail Sales Potential

The share of total income spent on retail goods and services by trade-area households was calculated and forecasted through 2016. The U.S. Bureau of the Census collects survey data on household spending, which is used as the basis for determining the share of income spent by trade-area households on each type of retail good. Using this information, it is calculated that trade-area households will spend about \$50,028,000 on retail goods in 2011. That number will increase to \$51,742,000 by 2016, an increase of \$1,715,000 or 3.4% over the five-year period. This amount of increase in sales would be negligible to many large retailers, at only about \$143,000 per month. By comparison, residents of downtown Chattanooga alone generate retail sales of \$176 million, increasing by \$14 million to \$190 million by 2016.

## **Competitive Framework**

The town center site will have to compete against all other retail locations for sales generated by the households within the Lookout Mountain trade area. Again, what makes the Lookout Mountain “:island” effect somewhat unique is that retailers could have a “captured” market for certain sales, such as convenience goods, for which local residents are most likely to shop on the mountain. On the other hand, shopper’s goods retailers (such as clothing stores, furniture stores, bookstores, etc) are less likely to attract the destination inflow traffic they need to survive from households outside of the mountain. Key competitive nodes, both on and off the mountain, are summarized below.

### **Lookout Mountain, Tennessee**

Lookout Mountain, Tennessee has a small business node on Scenic Highway (148) anchored by the local post office. Mountain Center, a small strip shopping center, accommodates the post office and other office space, plus Twiggs (a gift shop), Hill City Pizza (recently opened to replace Guthrie’s Restaurant), Body Fit Concepts (personal fitness), Mountain Escape Spa, First Tennessee Bank, and the Café on the Corner (Lookout Mountain Café). The Lookout Mountain Baptist Church is situated near this center, helping to create a civic node. The Sun Trust Bank is also located nearby at 802 Scenic Highway, along with Mystic (Lookout Mountain Service Center) and Lookout Mountain Cleaners. The Mountain Hospital for Animals is also located nearby.

### **Lookout Valley**

There are several commercial corridors located at the base of the mountain in Lookout Valley. These corridors include Browns Ferry Road (TN 11) and Cummings Highway (TN 2, US 64, US 72, US 41). These corridors are described below.

**Cummings Highway.** Cummings Highway is anchored by a Wal\*Mart Center as well as the older Valley Center. The Wal\*Mart Center has a Cato Fashions, New China Buffet, Dollar Tree, and other stores. There are four vacancies (about 3%) in this center. Valley Center has a personal trainer, Fireside Grill, and some hair salons, but also a significant amount of vacant space (approximately 60%). Another small strip center with Subway, Star Discount Convenience Store, and Janie’s Hair-Hut, has lost its anchor tenant (28,875 square feet), accounting for about 80% of the space in the center. Other uses in the valley include trailer parks, used car sales, gas stations, banks, and a Mexican restaurant (Las Margaritas). Most of these businesses hold little appeal to affluent residents of Lookout Mountain.



**Browns Ferry Road / Wauhatchie Pike.** On the west side of the mountain in Lookout Valley, Browns Ferry Road also offers a mix of commercial uses. In addition to a number of gas stations near the interchange with Interstate 24, the Browns Ferry Village Shopping Center offers convenience retail accessible to residents of Lookout Mountain. The center is anchored by Food Lion, and also offers CVS Pharmacy, Dollar General, Country Diner, China Gourmet, and other businesses. About 5% of the space (three units) in this center is vacant. Also along this corridor are fast food restaurants and hotels including Quality/Comfort Inn and Econolodge.

### **St. Elmo**

The St. Elmo area of Chattanooga at the foot of the mountain also has a significant and competitive retail base, some of which has a quaint “hipster” destination appeal that competes directly with retail atop the mountain for younger, affluent “granola” shoppers as well as tourists. In particular, St. Elmo Avenue (and Tennessee Avenue) has an historic commercial district that includes the Blacksmith’s Bistro & Bar, Umbra Essence, Niedlov’s Bread Works (bakery), Collective Clothing (vintage), Shagadelic “Groovy” Hair Salon, Mojo Burrito, Body Wisdom, Purple Daisy/BBQ, Sawasdee Thai Restaurant, and others. There is also a significant office component in this business district. The businesses are situated within walking distance to the Incline Railway terminus, so virtually a short “ride” from the site.

St. Elmo Central Shopping Center is anchored by a Bi-Lo Food & Pharmacy, as well as a CVS Pharmacy. Other stores include Family Dollar, M&J Sportswear, Mr. T’s Pizza & Ice Cream, Blimpie, and various services. About 5,000 square feet in the center is vacant.

### **Lookout Mountain Parkway (157)**

There are several small retail businesses located south of the site along Lookout Mountain Parkway. These businesses capture market potential from the south of the site. Among the businesses is Mt. K Grocery (a convenience store/gas station), Hunt Brothers Pizza, and Lookout Grocery/Deli (another convenience store), among others.

### **Downtown Chattanooga**

There is significant retail near the mountain in downtown Chattanooga, including groceries, pharmacies, restaurants, and various retail stores. A sample of retail uses in the area includes Walgreen’s, Rite Aid, Popeye’s, Krystal, Taco Bell, High Point Antiques, Mt. Vernon Restaurant, Wendy’s, Subway, Bocaccia Italian Restaurant, Ace Hardware, KFC, Rug Rack & Home Décor, Raceway, Pilgrim’s Pride, Warehouse Row, Blue Orleans Restaurant, and others. The

North Shore also has a retail business mix including May Jewelers, Champions Ice Cream, Bon Apetit Bakery, Essentially Belgian, and others.

### **Other**

In addition to shopping malls (e.g., Hamilton Place, Northgate) and commercial districts throughout the region, other venues located on Lookout Mountain itself also attract sales from within this consumer market. Rock City provides its own on-site retail venues, which appeal to the tourists that visit this venerable attraction. A Starbucks opposite the Rock City gate appeals to tourists as well as to the local population, including commuters en route to work in the morning. The Fairyland Club has evolved into a premier private club that offers eating & drinking facilities for members.

## **Household-Generated Demand**

Trade-area households will represent about 70 to 80% of the sales base for retail businesses at the town center site. Based on an assessment of the competitive framework, capture rates were determined for the Town Center site for each type of retail good and service. These capture rates were applied to the trade area expenditure forecasts to derive the site potentials (in terms of sales). An inflow factor was then added that includes a share of sales generated by households within downtown Chattanooga and other parts of the region. Finally, these sales were translated into square feet of floor-space demand, using standard sales-per-square-foot performance targets. There would be resulting site demand for about 24,200 square feet, if there were no minimum floor requirements. These findings are discussed below and detailed by type of retail establishment in Appendix Table 2.

### **Convenience Goods**

There is overall site demand for about 10,530 square feet of convenience goods space, including 3,500 square feet of grocery, 700 square feet of convenience store, and 600 square feet of “specialty food” stores. There is demand for about 3,000 square feet of pharmacy/health store space, but this is already captured by the existing Fairyland Pharmacy. There is an apparent 700 square-foot over-supply of pharmacy space in the existing market, but this relates to the fact that the Fairyland Pharmacy operates more like a general merchandise store than just a pharmacy, offering hardware, plumbing supplies, toys & games, cards, gifts, etc. Thus, perhaps 700+ square feet in the pharmacy is taken up by general merchandise sales, allowing the store to remain viable in the current market. There is demand for about 1,800 square feet in gas stations, but the existing filling station on site captures most of this demand. Market growth will generate demand for another 500 square feet of gas station, but that growth will be captured through increased sales at the existing station.

### **Shopper's Goods**

There would be potential for about 12,900 square feet of shopper's goods stores at the site, led by 3,100 square feet of general merchandise, 1,400 square feet of hardware/building supply, 1,100 square feet of home furnishings, and 1,000 square feet of apparel. Again, some of the "excess" demand for general merchandise is already captured by the Fairyland Pharmacy, *netting* potential for another 2,400 square feet of general merchandise space. There is demand of only a few hundred square feet for some types of businesses, which is insufficient to support retail floor space in most categories.

### **Dining, Entertainment, and Personal Services**

There is potential for about 3,100 square feet of dining and entertainment, including 1,100 square feet for full-service restaurant. There is also 2,700 square feet of potential for personal services (e.g., hair salons, shoe repair, seamstress, etc). Again, household-generated demand is summarized in Appendix Table 2.

### **Other Sources of Demand**

As noted previously, most demand for retail at the Town Center site would be generated by households within the primary trade area, along with nominal inflow from surrounding areas. However, there would also be some demand generated by Covenant College students who live in dormitory housing on Lookout Mountain as well as by tourists who visit the mountain's many tourist attractions and parks. Demand generated by these other sources is factored in to determine overall site potential.



### **Covenant College**

Covenant College has an extraordinarily beautiful campus located on a high point of Lookout Mountain. This liberal arts institution is affiliated with the Presbyterian Church in America and offers a range of courses focused on English, History, Education, Sociology, Biology, Business, and other subjects. The university has full-time under-graduate enrollment of 959 (fall 2010), plus 27 part-time students, for a total enrollment of 996. About 840 (84%) of students live on campus, according to the college. Most students hail from Georgia, Tennessee, and surrounding states, but 43 states and 20 countries are represented by the student body. In addition to the student

population, the campus also supports 62 full-time teaching faculty members, many of whom live off the mountain.<sup>1</sup>

**Retail Demand.** A static analysis of Covenant College student expenditures suggests that the college students would logically generated off-campus demand at the site for about 2,300 square feet of retail space. Again, like many residents of Lookout Mountain, the college students represent a “captured market” for certain goods and services, although they already receive room and board on-campus. Based on information provided by the university, the college students have average living expenses beyond tuition, room and board or about \$3,000 per academic year. Assuming that most of these expenses are generated for retail goods and services, the students represent spending power in excess of about \$2.5 million per year. Only a portion of this spend would be captured at the site, although significant at up to 23%, still only yields demand for about 2,300 square feet of retail space.

**Table 21. STUDENT-GENERATED DEMAND, LOOKOUT MOUNTAIN SITE**

<b>Factor</b>	<b>Amount</b>	<b>Assumption</b>
Student Population	996	
On Campus	837	84%
Student Expenses	\$ 35,976	
Tuition	\$ 25,476	
Room/Board	\$ 7,450	
Remainder	\$ 3,050	
Total Expenditures	\$ 2,551,752	
Capture	\$ 586,903	23%
Demand	2,348	\$ 250.00

Sources: Covenant College and Randall Gross /  
Development Economics.

These numbers were refined through the model and attributed to purchases of different types of goods and services. Expenditures by faculty and other university staff were also included through the inflow factor.

## **Tourism**

Lookout Mountain is perhaps best known as a tourist mecca, attracting thousands of visitors each year to its mix of public and private venues. Key attractions include Rock City, Ruby Falls, Lookout Mountain Incline Railway, and Chicamauga & Chattanooga National Military Park (Lookout Mountain Battlefield / Point Park). These beloved attractions have pulled millions of visitors to the area since the establishment of the park in 1890, furthered by the development of

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<sup>1</sup> Photo and data sourced from Covenant College.

the Include Railway in 1898. Garnet and Frieda Carter founded Rock City in 1932, creating a unique tourist destination out of a “geological wonder.” While the famous “See Rock City” signs have mostly disappeared from barn rooftops throughout the South, the moniker still attracts visitors to the wondrous natural landscape, dramatic history, and unique attractions and meeting places atop the mountain.



These attractions bring an estimated 400,000 visitors per year to the mountain. The Incline Railway itself ferries 160,000 passengers to and from the top of the mountain, including commuters who use this steep rail line for travel to work in downtown Chattanooga. Rock City offers its own in-house retail. Some of this retail (e.g., Starbucks) is located outside of the gate, dependent on sales not only from on-site tourists but also from the local community.

**Table 22. TOURISM-GENERATED RETAIL DEMAND, TOWN CENTER SITE**

Category	Factor	Total
<u>LM Tourists</u>		400,000
<u>Total Spend</u>	\$ 95.27	\$ 38,106,986
Restaurants	\$ 29.15	\$ 11,660,728
Retail Trade	\$ 10.19	\$ 4,077,452
Entertainment	\$ 9.91	\$ 3,963,134
<u>Site Capture</u>		
Restaurants	8%	\$ 932,858
Retail Trade	6%	\$ 244,647
Entertainment	2%	\$ 79,263
<u>Demand (Square Feet)</u>		
Restaurants	\$ 550	1,696
Retail Trade	\$ 250	979
Entertainment	\$ 180	440
<b>TOTAL</b>		<b>3,115</b>

Sources: Smith Travel Research, University of Tennessee, and Randall Gross / Development Economics.

Based on analysis of tourism data, Lookout Mountain’s tourists generate expenditures of about \$38.1 million per year (assuming an average stay of one day on the mountain). The town center site, if marketed as part of the broader tourist package, should then be able to capture sales of about \$1.3 million per

year. This translates into demand for about 1,700 square feet of restaurant, 1,000 square feet of retail trade, and 400 square feet of entertainment, for a total tourism demand of about 3,100 square feet.

This tourism-generated demand analysis assumes the site would capture sales above and beyond those already generated to existing attractions and retail businesses on the mountain if there is a pro-active marketing approach to attract visitors to stay longer and shop. Thus, some of these sales would be captured from businesses that are not located on the mountain as tourists extend their stay to visit the town center while also visiting the mountain’s attractions. Another way to look at the potential is in terms of tourism growth. Assuming a 4% average annual growth rate in tourism expenditures (consistent with regional trends), then the site should be able to capture demand for about 1,000 square feet of retail space. This latter approach assumes that the site does not capture any demand from existing businesses off of the mountain. So, there is potential for 1,000 to 3,100 square feet of tourist-generated demand at the site over the next five years.

### Total Retail Site Potentials

The site potentials generated by trade-area households and inflow, students, and tourists were aggregated and refined to provide an understanding of the total site retail potentials. Based on this analysis, there would be potential for about 29,300 square feet of retail space, net of existing uses.

<b>Table 23. SUMMARY WARRANTED RETAIL DEMAND BY USE LOOKOUT MOUNTAIN SITE, 2011 AND 2016</b>				
<b>Type of Good</b>	<b>Gross Demand (SF)</b>		<b>Existing Uses</b>	<b>Warranted Demand</b>
	<b>2011</b>	<b>2016</b>		
Convenience	11,225	11,625	4,300	7,325
Shoppers Goods	13,928	14,442	-	14,442
Eating/Drinking	2,814	2,929	-	2,929
Entertainment	1,530	1,597	-	1,597
Personal Services	2,881	2,988	-	2,988
<b>TOTAL</b>	<b>32,376</b>	<b>33,580</b>	<b>4,300</b>	<b>29,280</b>
<i>Existing Vacant</i>			-	
<b>Net New Space</b>				<b>29,280</b>
Source: Randall Gross / Development Economics.				

This potential would include demand for about 14,400 square feet of shopper’s goods, 7,300 square feet of convenience, 4,500 square feet of dining and entertainment, and about 3,000 square feet of personal services.

## **Recommended Business Mix**

As noted earlier, demand in some categories is insufficient to support the floor plate necessary to ensure the viability of an operating business. For example, there may be 100 square feet of demand for a particular retail use, but this is insufficient for operating a business that may require 2,500 square feet to operate efficiently. Based on the findings, a recommended business mix is provided that combines uses where appropriate and suggests marketing opportunities for niche businesses. The combined merchandising approach is common in small town centers and is already used by stores like Fairyland Pharmacy (e.g., pharmacy and hardware) in order to remain profitable. As shown below, the total floor plate for retail uses totals only about 17,000+ square feet, because remaining demand is insufficient for supporting new retail space or can be absorbed through increased sales to existing businesses.

**Table 24.**

**OVERALL RECOMMENDED RETAIL MIX  
LOOKOUT MOUNTAIN TOWN CENTER, 2015/20**

<b>Type of Business</b>	<b>Square Feet</b>
Town Center Grocery / Specialty Food / Wine and Café	6,500
Apparel, Accessory & Shoe Store	2,000
Home Furnishings & Hardware Store	2,000
General Mdse/Gift/Toy Store (or expanded Pharmacy)	3,500
Books/Music/DVD/Electronics Store	1,000
Cultural Venue (e.g., stage at Café, auditorium City Hall)	1,600
Hair/Nail Salon	1,000
<b>Total</b>	<b>17,600</b>

**Source:**

Randall Gross / Development Economics.

### **Specialty Grocery**

There is an opportunity for combined merchandising to create a viable food business in the town center. This merchandising strategy would be based on demand for a small 6,500 square-foot specialty grocery on the site offering meat and produce, combined with convenience and specialty foods such as wines, and a small “healthy” neighborhood café (with seasonal outdoor space) that also delivers sandwiches, pizza or other food to Covenant College dormitories. Such a café should not offer products that would compete directly with Starbucks or other existing restaurants on the mountain but could develop a relationship with them (such as through the supply of baked goods or other specialty foods).

### **Designer Apparel Store**

There is also potential for a small high-end apparel store that also carries accessories and shoes. The store would target affluent neighborhood residents but also serve as a *destination* for affluent shoppers throughout the region. Ideally, the store might have an in-house design consultant providing services to affluent clients throughout the area, so that it is not totally dependent on store sales. Shoppers might visit the store, have lunch at the café, and shop in the grocery. Again, a combined merchandising strategy would help capture demand not only for apparel, but also accessories and shoes, both of which would be carried as part of the store's merchandise line in order to ensure its economic viability.

### **Home Design Furnishings Store**

The customer base would also be attracted to a home furnishings store that catered to the affluent market but also offered some hardware and practical household items in an old fashioned and comfortable setting. Again, the store is envisioned as a "hang-out" for community residents but also attracting some downtown and affluent destination shoppers. Care would need to be taken to ensure that such a store does not compete directly with the plumbing supplies offered by Fairlyland Pharmacy (and there could be a merchandising relationship developed between the two businesses). With even a slightly stronger destination draw generated by the presence of more shops, Fairlyland Pharmacy will benefit from increased exposure and sales volumes.

### **General Merchandise Store**

There is the opportunity to attract a small general merchandise store as an "anchor" use for the project. Such a business would carry gifts, toys & games, and general merchandise. An alternative would see the expansion of the existing Fairlyland Pharmacy to carry a *broader and deeper range* of merchandise (as it already carries lines above and beyond pharmaceuticals). Through a shift in merchandising strategy, the store could capture more destination sales to complement its share of the local market. Ideally, the pharmacy use should be separated from general merchandise and co-branded instead with a grocery or food store use, which is more in keeping with convenience goods category sales.

### **Books/Music**

There are challenges to opening new book and music stores, due to the rapidly-changing technologies impacting on these markets. However, there are specialty niche stores that target market their products, for example, to affluent customers and students. Such stores can sell a broader range that includes new technologies (e.g., e-books and accessories) that complement the product line.



Here might also be the opportunity for expanded destination appeal through the operation of a Rock City-operated book/music/gift shop at this site that would offer not only Rock City and children's merchandise but also a broader range of material that would appeal to the local market. Such an enterprise is only recommended if operated by Rock City and should not compete with existing retail at the attraction.

### **Cultural Venue**

The community has a desire for more of a neighborhood place to come together. There is a need in Lookout Mountain to create a space for residents of this special community to "hang out" which also appeals to prospective residents and homebuyers. There is some nominal demand for commercial entertainment venues that cater more to adults (and college students) to complement the more family-oriented attractions geared towards tourists on the mountain. However, this demand is not very deep and may only warrant the integration of live music (such as with the café) or a programmed cultural space that might be partially funded through non-profit activities. Either way, this type of space would help strengthen the civic heart of the community and provide a space for neighbors to socialize with one another. This venue, along with the adjoining town center shops, could also attract Chattanooga-area visitors in much the same way as affluent communities like Lieper's Fork (in Williamson County).

### **Personal Services**

There is demand for some additional personal services such as a hair or nail salon at this site. Such an establishment would serve primarily the local clientele and would complement other personal services on the mountain including other salons and spas.

## **Summary**

This retail market analysis tested the potential for retail/commercial uses at the Town Center Site in Lookout Mountain, Georgia. Ultimately, the site can support up to about 17,600 square feet of retail uses, anchored by a grocery & specialty food market, but only if the project is marketed broadly to attract not only local shoppers but also destination visitors and tourists. The market will support less commercial use than envisioned in the Town Center Plan (21,000 square feet), but potentially more than envisioned in the architectural renderings (9,400 square feet). If a destination marketing approach is not applied, then demand would be restricted primarily to local residents and would more likely resemble the architect's proposed 9,000 to 10,000 square-foot commercial floor plate.

## **Section 4. STRATEGIC RECOMMENDATIONS**

This section provides recommendations on the overall marketing concept, tenancing and target marketing strategy, development, and input towards the sustainable operation of the proposed project within the context of the town center. These recommendations are based on the findings of the site analysis as well as the two market studies – for housing and retail – that were conducted for the proposed Town Center site. A concept for the mixed-use development is proposed below and compared with the scenarios introduced by the Town Center Plan and refined by the architect. Development recommendations are also made in terms of the approach to developing this product. A marketing strategy is also recommended that follows on the findings from the market analysis. A financial “sustainability” analysis is now underway that will inform recommendations for the sustainable operation of the proposed project.

### **Mixed-Use Development Concept**

Based on the market analyses, there is clearly an opportunity for some mixed-use development at the site as envisioned by the Town Center Plan. The market analyses forecast potential for 7 to 10 multi-family housing units (live/work, loft condos and/or townhouses) and about 17,600 square feet of retail space, within the near term (5-7 years). These uses would be integrated with the civic activities as outlined by the Town Center Plan to form a small but fully-functioning, walkable, and attractive community town center.

While the market analyses support a concept similar to that proposed by the Town Center Plan, the supportable *scale* of development would be somewhat smaller. This project would have a much smaller residential component of 7 to 10 units, more ancillary to the commercial and civic functions. Rather than 21,000 square feet of retail space, the market supports about 17,000 square feet, although the general uses would be similar to what is envisioned in the plan.

The market analysis supports a housing component more similar in scale to what is envisioned by the architect (Artech), but in a different configuration. Rather than having two flats and five townhouses stacked above commercial space, the market analysis suggests closer to 5 live-work or second-floor loft spaces plus 2 to 5 adjacent townhouses. This mix is somewhat more challenging in terms of physically integrating a small number of townhouses with retail / commercial space. It may be more viable to focus on development of 5 or 6 upper-floor condo loft units and small 1-2-story live-work units (integrated in tandem with the commercial space). There would be more commercial space than envisioned by the architect, but only if that space is marketed broadly to local as well as destination shoppers.

## **Design Framework**

From a design perspective, the original Town Center Plan fairly accurately reflects the concept that is most marketable in this context. The Town Center Plan illustrates a style of architecture, use of materials (e.g., stone), and overall design for the project that is appropriate to the market and in keeping with the community's design aesthetic.

**Flats vs Stacked Townhouses.** Most relevant is the height of the buildings, which is maintained at one and two-stories, rather than the three-story version illustrated through the architect's plan for stacked commercial/townhouses. While stacked product is quite viable in certain locations, such formats may not appeal to the market in this location. First, the product (two-story townhouses "stacked" on top of retail space) is rather unusual in the Chattanooga region and there is very limited experience in the market with this product. Thus, it will be more challenging to promote this product in a market where there is very little familiarity with the concept.

Second, the target demographics include empty nesters who are less likely to desire access via three flights of stairs (one floor of retail plus two floors of townhouse) to upper-floor rooms. There are three-floor houses and houses built on stilts (such as in flood-prone areas) that have lifts for accessing upper floors, but this added cost is likely to be prohibitive given the overall price sensitivity of the market. **Finally, the visual impact of townhouses stacked on retail (as envisioned by the architect) is not in keeping with the small-scale village feel proposed by the community through their planning process, nor consistent with the overall marketing concept for a mountain village.**

Meanwhile, there is a proven market for flats in this town center area. There is an existing condominium project that has remained successful and, along with nearby apartments, retains its investment value through rentals. There is little vacancy in these units. As noted previously, there is a market for townhouses, but such units would be more successful if integrated with, or developed adjacent to, rather than above the retail.

## **Marketing Strategy**

The Town Center Plan accurately portrays an image that is appealing in the context of the market for mixed-use at this site. **Lookout Mountain is a very special place, and the design standards for this development should reflect the project's positioning as the town center of this special community in a particularly unique setting.**

## **Target Markets**

The project must appeal to residents of Lookout Mountain first, since they are the most important part of the market for both housing and commercial uses in the town center. But the project must also appeal to a destination market for visitors and consumers from throughout the Chattanooga region as well as tourists. The key target markets include the following:

- Lookout Mountain Households
- Affluent Metro Chattanooga retail and restaurant consumers
- Affluent Metro Chattanooga empty nesters (age 55-74) and young professionals (age 25 to 34) who prefer mountain living
- Covenant College students
- Lookout Mountain and Chattanooga tourists
- Niche markets on Signal Mountain and Downtown Chattanooga

Marketing would focus on developing a regular clientele among Lookout Mountain (TN-GA) consumers and on creating a destination for affluent residents of the Metro Chattanooga area. Because of the site's relatively isolated location and limited access & exposure, it is critical to create caché for the project and cultivate destination markets. Without a pro-active effort to attract destination shoppers, then the full market program would not be supportable and only the convenience portion would generate sufficient demand to remain viable. Such convenience uses include primarily the 6,500 square-foot specialty grocery & café, 3,500 square feet in expanded pharmacy / general merchandise store, and 1,000 square-foot personal services establishment (e.g., hair salon).

## **Destination Marketing**

The destination market is cultivated in part through the creation of a unique shopping and living environment that provides a relaxed atmosphere for visitors to walk, shop, dine, and enjoy cultural activities and beautiful mountain surroundings. The market is also cultivated through a particularly pro-active approach by the developer to recruit retailers (such as a designer apparel store, etc) that meet target market standards. Finally, the market is leveraged through the use of a civic amenity such as a small cultural venue where live music or other performance helps to attract visitors while also creating amenity value for the local community. Linking the project with existing tourist attractions, such as through co-branding or operation of key facilities (e.g., gift shop or cultural venue), will also help broaden the market base for the Town Center.

Again, without such strategies, the commercial uses are wholly dependent on local spending. Further, if there is no destination appeal, then the project is also less likely to prevent the further "leakage" of Lookout Mountain household spending to retailers off of the mountain. To reiterate these strategies:

1. Create a unique shopping and living environment that especially appeals to affluent consumers
2. Pro-actively recruit retailers that meet target market standards
3. Use a cultural venue (e.g., place with live music) to attract visitors and create amenity value for local residents and students.
4. Link the project with area tourist attractions through co-branding and/or direct operations.

### **Marketing Plan Required**

A marketing plan should be developed for the project, once tenanted, to focus on outreach to target consumers throughout the region. Social networking, along with target advertising approaches should be explored as part of the marketing plan to help bring consumers to the project and the mountain. Ultimately, a successful town center project will help revive Lookout Mountain as a place to live, recreate, visit, shop, and dine out.

### **Financial Sustainability**

The financial “sustainability” of the project is being assessed through a basic pro forma analysis. Ultimately, it will be critical to understand how the project will be operated on a sustainable basis so that it will continue to function as a viable town center into the future. Key questions relate to the integration of marketing and maintenance efforts as a direct cost associated with the ongoing operation of the retail component of the project, in much the same way as a shopping center operator bears such costs. Other key questions relate to the appropriate approach for integration of residential uses, such as live-work, upper-floor loft flats, and/or townhouses in order to achieve operating efficiencies.

### **Summary**

Pro-active marketing and recruitment efforts will be required to achieve the successful development and operation of a new Town Center to the standard envisioned by the Lookout Mountain community. Development of a smaller-scale and lower-height project will be more attuned to the market in this location, but there will still be a need to attract destination demand in order to ensure the economic viability of most retail uses desired by the community at the site. Regardless of market support, the project has merit if only because the site has for many years served as the civic and commercial heart of the Lookout Mountain community, and there is good reason to re-establish and strengthen that connection. Given the long-term significance of this project to the community, every effort should be made to ensure the highest-quality development.

## APPENDIX

**Table A1. RESIDENTIAL CONSTRUCTION PERMIT TRENDS,  
LOOKOUT MOUNTAIN AND AREA, 2000-2011**

Year	Lookout Mtn, GA		Lookout Mtn, TN		Metro Chattanooga		TOTAL
	SF	MF	SF	MF	SF	MF	
1996	1	-	3	-	2,639	30	2,669
1997	2	-	4	-	2,403	539	2,942
1998	3	-	5	-	2,531	199	2,730
1999	2	-	4	-	2,350	352	2,702
2000	1	-	4	-	2,241	269	2,510
2001	-	-	3	-	2,404	463	2,867
2002	5	-	-	-	2,676	247	2,923
2003	3	-	2	-	2,960	306	3,266
2004	4	-	4	-	3,269	289	3,558
2005	4	-	1	-	3,469	329	3,798
2006	3	-	2	-	3,213	242	3,455
2007	-	-	2	-	2,217	470	2,687
2008	2	-	-	-	1,390	154	1,544
2009	-	-	1	-	1,059	67	1,126
2010	1	-	-	-	1,017	69	1,086
2011 1/	-	-	-	-	812	60	872
TOTAL	31	-	35	-	36,650	4,085	40,735
1996-2000	2	-	4	-	2,433	278	2,711
2001-05	3	-	2	-	2,956	327	3,282
2005-11	1	-	1	-	1,618	177	1,795

Sources: U.S. Bureau of the Census and Randall Gross / Development Economics.

## Randall Gross / Development Economics

Table A2.

### WARRANTED HOUSEHOLD-GENERATED RETAIL DEMAND BY USE, LOOKOUT MOUNTAIN SITE, 2011 & 2016

Type of Good	Gross Demand (Sq Ft)		Existing Uses	Warranted Demand
	2011	2016		
<u>Convenience</u>				
Grocery	3,365	3,485	-	3,485
Convenience	665	689	-	689
Specialty Food	558	579	-	579
Health/Pers Care	2,901	3,004	3,730	(726)
Gas/Convenience	1,730	1,793	1,234	559
Misc Conv	947	981	-	981
<b>Sub-Total</b>	<b>10,167</b>	<b>10,530</b>	<b>4,964</b>	<b>5,566</b>
<u>Shoppers Goods</u>				
Apparel	1,001	1,038	-	1,038
Accessories	35	36	-	36
Jewelry	221	229	-	229
Shoes	148	154	-	154
Furniture	447	462	-	462
Home Furnishings	1,066	1,105	-	1,105
Appliances	105	108	-	108
Hardware/Bldg/Home	1,317	1,363	-	1,363
Garden Supply	813	841	-	841
Gen Mdse/Dept	3,036	3,147	-	3,147
Auto Dealers	38	39	-	39
Auto Supply	640	662	-	662
Electronics/Comp	854	884	-	884
Books/Music	944	989	-	989
Camera/Photo	39	41	-	41
Gift, Novelty, Svr	475	493	-	493
Hobby/Toy/Game	362	375	-	375
Luggage/Leather	11	12	-	12
Office/Stationary	233	241	-	241
Sewing/Piece	154	160	-	160
Sporting Goods	459	475	-	475
<b>Sub-Total</b>	<b>12,399</b>	<b>12,856</b>	<b>-</b>	<b>12,856</b>
<u>Dining &amp; Entertainment</u>				
Restaurant-FF	576	598	-	598
Restaurant-FS	1,140	1,190	-	1,190
Drinking Estab	370	383	-	383
Entertainment	900	939	-	939
<b>Sub-Total</b>	<b>2,986</b>	<b>3,110</b>	<b>-</b>	<b>3,110</b>
<u>Personal Services</u>				
	2,595	2,692	-	2,692
<b>TOTAL</b>	<b>28,147</b>	<b>29,187</b>	<b>4,964</b>	<b>24,224</b>
<i>Existing Vacant</i>			-	
<b>Net New Space</b>				<b>24,224</b>

Source: Randall Gross / Development Economics.



