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CHATTANOOGA INDUSTRIAL UPDATE

The Volkswagen manufacturing facility continues to drive activity in the area.

J. Bryan Rudisill

The Chattanooga industrial market, as is true in most of the rest of the country, has taken its lumps during the past 12 months. In contrast to most major markets though, Chattanooga has some very positive developments.

Volkswagen, of course, has been the headline maker, as it represents a \$1 billion investment. Alstom Power, flying "under the radar," is undergoing a \$300 million expansion in an effort to meet current and future demand in the nuclear power industry. Site work has begun 30 minutes north of Chattanooga at the new Wachter Chemical site, which represents another \$1 billion investment.

Simultaneous with these announcements, the Chattanooga Metropolitan Airport Authority just received approval from its board of directors and its parent, the Federal Aviation Authority, for what is called its 20-year improvement and addition plan. This was accomplished in anticipation of escalating arrivals and departures at the facility. The plan includes \$241 million of improvements to existing facilities along with the purchase of additional property in order to extend the runway.



The list of suppliers to the Volkswagen plant is growing. A few of the new entries include Magna International, which has announced that it will enter into a joint venture with Hollingsworth Logistics Group, called Chattanooga Seating Systems (CSS), in order to supply seating to Volkswagen at its new plant in Chattanooga. CSS plans to employ 120 at its new facility in Chattanooga.

Another tier-1 supplier, Gestamp Corporation, plans to invest \$90 million to establish a new parts stamping operation at the VW site. Plans are to employ 230 workers there to produce structural components for the new mid-size sedan that will be manufactured at the site.

Under the control of Volkswagen, a supplier park is being developed on the VW campus to offer space to tier-1 suppliers. The park, when completed, will consist of two 225,000-square-foot buildings. Currently, five suppliers have committed to the park.

In another industry, Chattem recently was purchased by Sanofi-Aventis, which is one of the world's largest makers and distributors of consumer healthcare products. Their purchase of Chattem — maker of Gold Bond, Bull Frog, Icy Hot, Selsun Blue and ACT mouthwash — will give Sanofi a tremendous platform in the United States on which to launch its products. Prior to the purchase, Chattem was in the middle of a \$35 million expansion that was creating 70 new hires. Arcade Marketing, a division of Visant Corporation, purchased the former McKee Baking facility on Amnicola Highway and moved its operation into the 130,000-square-foot building, adding some 35 to 50 jobs.

The greater Hamilton County and the surrounding area has a workforce that is trained and ready. Unemployment figures show the immediate area at approximately 9.5 percent unemployment as of March (this is compared to the Tennessee's average of 10.8 percent and national average of 10.2 percent). Hamilton County is faring better than most, and the future is bright with Volkswagen, its suppliers and all the new innovative industry moving in, such as Gestamp, Sanofi-Aventis and Visant.

Warehouse and distribution space exhibits the stress in the global economy. Rental rates are trending downward, as demand is outpaced by supply. Current vacancy in this category is in excess of 10 percent with an estimated 4 million square feet available to the market. Lease rates for big box distribution space in the county range from low- to mid- \$2 per square foot. The local leader in this market, Kenco Group, which controls approximately 5 million square feet out of a 40 million-square-foot market, was not available for comment.

In regard to some of the bigger boxes available in the market, Kenco is marketing a 686,000-square-foot institutional food grade distribution facility on the west side of Chattanooga in what is known as Tiftonia. NAI Charter is marketing a 500,000-square-foot institutional grade distribution facility on Amnicola Hwy. Also, two former Bi-Lo warehouses measuring 300,000 square feet and 165,000 square feet are being offered to the market.

In the surrounding counties, the outlook is similar. Large manufacturing facilities which once provided the majority of jobs in those communities are leaving at an alarming rate. In Sequatchie County, for example, Tecumseh Power once employed some 600 workers, but now the 230,000-square-foot facility is empty and on the market with NAI Charter for \$3 million. In Rhea County, Kinro Manufacturing idled a 100,000-square-foot facility and put it on the market for \$1.5 million. Array Manufacturing is offering its 100,000-square-foot facility in Decatur, for \$1.375 million.

Rental rates in these smaller communities surrounding Chattanooga would trend toward \$2 per square foot and lower to about \$1.50 per square foot per year. Unemployment rates in these areas will trend higher than Hamilton County with figures in Sequatchie, Rhea and Meigs counties exceeding 13 percent.

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