

ECONOMY

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Chattanooga Reinvents Itself, at Its Own Pace

Crippled by Manufacturers' Exodus, Tennessee City Rebuilt Over Four Decades With Urban Renewal and Business Incentives

CHATTANOOGA, Tenn.—The housing boom largely bypassed this midsize city in the Appalachian foothills, which many big developers found too small and too remote to warrant many major investments.

But missing out on the national joy ride turned out to be a double blessing for residents: Not only did the local economy dodge the foreclosure hangover that continues to dog other areas, but local and state officials instead spent the time devoting resources to lure big employers that have helped give the former manufacturing city a second act.



European Pressphoto Agency

In Chattanooga, Tenn., employees work at VW assembly plant, which got a boost from land and tax benefits.

Tax incentives and land grants totalling about \$630 million were used to help attract \$2 billion of investment from dozens of companies—Volkswagen AG, Amazon Fulfillment and Alstom SA—

which helped to create more than 7,500 jobs and turned this once struggling town into one of the nation's strongest local economies. The number of people employed in the region has grown in the past few years to 240,000, putting the unemployment rate at 7.6% in February, below the national rate of 8.3% that month, according to the Labor Department.

Residents "who have lived here for a long time once again have hope," says Mayor Ron Littlefield, whose city has a population of about 170,000. "We aren't losing our young people. We are attracting other people's young people."

Rising demand has boosted average home prices here by 2.3% since February 2011, at a time when prices have continued to fall in many metropolitan areas. And Chattanooga properties in some stage of foreclosure tumbled 27% from the prior year during the first quarter, compared with a 16% decline nationwide, according to RealtyTrac.

Average rents, meanwhile, grew 3.9% from the prior year in the first quarter, making it the nation's third-largest gainer, behind San Francisco and San Jose, according to Reis Inc.



Brian McCord for The Wall Street Journal

John Sweet, says sales have jumped at Niedlov's Breadworks, his downtown bakery.

The city also is working to grow its tech scene. Since late 2010, EPB, the city-owned nonprofit power provider, has offered one gigabit-per-second Internet speeds, up to 200 times faster than the national average—to both businesses and residents. This summer, public and private partners will pay for dozens of entrepreneurial businessmen and students to come to town for several weeks to develop applications and businesses that could benefit from the high-bandwidth. Locals hope the city

will benefit from new business ideas."Here is an old industrial city that now has the tools of the next generation," Mr. Littlefield says.

But using tax breaks, free land and other incentives to attract companies remains unpopular in many quarters. Some critics call the practice "corporate welfare" and some small-business groups argue that incentives are unfair because they often draw big out-of-town businesses rather than sustain smaller local companies.

Peter Fisher, research director at the Iowa Policy Project, says governments usually overstate the benefits of incentives, which he says are usually a bad use of taxpayer funds. The packages "end up costing a lot of money that should be going to the fundamentals of long-term economic growth, primarily education and infrastructure," he says. Instead, "we end up focusing on these short-term, spade-turning opportunities."

Proponents counter that incentives have become a necessary tool in economic development. "Cities need to be working with businesses, providing incentives in some fashion," says William F. Fox, director of the Center for Business and Economic Research at the University of Tennessee in Knoxville, who has advised the state on economic development.

It seems clear the incentives have played a role in the decades-long effort to revive Chattanooga's economy. Like many old factory towns, the city struggled to recreate its identity after its manufacturing base began disappearing in the late 1960s, leaving behind mostly pollution and despair. In 1969, CBS news anchor Walter Cronkite called Chattanooga America's dirtiest city. "We were dying," Mr. Littlefield recalls.

Mr. Cronkite's remark spurred residents to action. In 1973, a group of local executives redeveloped the train station as a tourist site and hotel, calling it the Chattanooga Choo Choo hotel and complex. In the 1980s, the city began to revitalize its riverfront; by the mid-1990s, the downtown boasted new museums, a theater and an aquarium.

Next, city leaders turned to wooing businesses. In the past decade, dozens of companies have received various breaks to relocate or expand in Chattanooga. The largest package so far has gone to VW, with incentives valued at \$500 million in 2008 from the city, county and state that included a 30-year property-tax deferral, 1,340 acres of city and county-owned land and infrastructure, and training grants, according to the Chattanooga Area Chamber of Commerce. The \$1 billion auto plant, VW's only one in the U.S., employs more than 2,500 workers and the German company recently announced it would hire 1,000 more this year.

Amazon, which built a facility the size of 17 football fields where customer orders are filled, was awarded a multimillion-dollar package in 2011 that includes 75 acres of former Army land adjacent to the VW site and no property tax for a decade, according to the local Chamber.

Alstom, whose new local factory makes turbines for coal, nuclear, gas and hydroelectric power plants, received a similar property-tax abatement in 2008 and help in training workers through a local college. It also received a \$63 million clean-energy manufacturing tax credit from the U.S. Department of Energy.

The job growth is helping everything from retail to real estate. Last year, sales climbed 10% from the previous year at Julie Darling Donuts. Sales jumped more than 25% last year at Niedlov's Breadworks, a bakery downtown, says owner John Sweet. And Chattanooga-based [CBL & Associates Properties](#) Inc., [CBL -2.55%](#) a publicly held mall operator, says sales at its flagship Hamilton Place mall have climbed in the "high single digits" from a year ago, while customer traffic has been up by double-digits.

Several new retailers, including cosmetics retailer Bare Escentuals and tea purveyor Teavana, have come to the market. "We have a number of inquires [from prospective tenants] that we're trying to figure out how to satisfy," says Chief Executive Stephen Lebovitz. "Our biggest challenge is we don't have space."

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