



I'd really like to see a 20-story condominium built from the ground up downtown, with river and mountain views," says Bob Talbott, a developer known for his careful approach to development prospects. "That's when we'll know we've arrived."

Arrival may not be that far off. In the midst of the current boom in redevelopment of existing downtown properties for residential purposes, architect Buzz Goss, the downtown-dwelling architect who is partnering with David Dewhirst, the historic-building rehabilitation pioneer, is involved in the planning of a mid-rise condo building on Gay Street that's being designed with high-rise expansion possibilities in mind.

Contingent on the city's final decisions on the downtown transit center's Gay Street entrance configuration, the proposed condo building was first described as a 7-story, 70-unit structure to be built over two floors of parking and a retail floor at the Gay Street level.

"I'm designing it to be up to 15 stories high," Goss now says. It may or may not proceed, but the idea is out there, and Goss and Dewhirst and their other partners in the proposal may well be the ones to do it.

Market forces will dictate the outcome, but a condo tower is believed to be more substantial than pie in the sky by the conservative Talbott, whose company, Holrob Investments, has concentrated its business in commercial development. "I'd love to be involved," says Talbott of the downtown's residential future.

The growth of downtown Knoxville residential demand has been phenomenal to those who looked at downtown housing patterns five years ago and shrugged off the opportunities that were just coming into focus. But that phenomenon is not ours alone. The desirability of urban living is fast becoming a fact of 21st-century American life. It started in the 1980s, nationwide, and took off in the 1990s, when the Brookings Institution's housing studies showed a 10 percent increase in downtown populations across the country.

Is there a cap on that urban lifestyle demand? A ceiling is not in sight, say local professionals in the real estate field. It has been fueled by young professionals and academics and empty nesters with the wherewithal to pay escalating prices for downtown homes that suit their fancy.

The lifestyle includes employment, entertainment, dining and shopping options that are within walking distance, and the sharp rise in motor fuel and home energy costs has been another factor that has sharpened the outlook for development near city centers.

Entertainment and dining choices in downtown Knoxville have been multiplying along with the trend.

The Keystone Building

Employment was always available. There are 22,000 employees downtown and at the adjacent University of Tennessee campus, according to U.S. Census Bureau mid-decade estimates, and Mayor Bill Haslam says the city's

downtown population count is now about 1,800, with 320 more expected to occupy downtown homes in 2006. Haslam says about 100 new housing units are already anticipated for occupancy in the next several months, and new plans and proposals are aired almost weekly.

Shopping opportunities have been opening more slowly. "It's a chicken-and-egg thing," Talbott and others say of the rapidly arriving need for a grocery, a drug store and more variety in the offerings of necessities such as clothing and home furnishings.

Although the Old City and Market Square shops seem to be thriving, for the most part, and a couple of Gay Street staples are hanging on, it is the opening of Mast General Store's Gay Street emporium set for this fall that has demonstrated the full impetus of the resident population's growth and the attractiveness of downtown shopping to the entire community. "Business attracts business," says Mark Schimmenti, the UT architecture professor whose Urban Design Center recently reopened on Gay Street.

Schimmenti, who is rarely so succinct as that, talks in glowing terms about the downtown's likelihood for fulfilling its former role as the cultural, social and economic heart of both the Knoxville community and the East Tennessee region between the Chattanooga and Tri-Cities spheres of influence. Schimmenti, who manned a similar, but non-university supported design center in downtown Nashville before returning to Knoxville last year, says, "I love living downtown, and I understand why anyone who wants to live here has that feeling. I'm really proud to see all these buildings being converted to residential properties and to the amenities that support residential."

"You have to have all three—jobs, housing, and retail—for a downtown to flourish," says Blaise Burch, director of property development for the Public Building Authority, which manages public structures throughout the county.

"I never thought I'd see it": Bank East Regional President Tommy Schmid. No comprehensive study of Knoxville's downtown residential potential has been conducted for more than five years, since the PBA commissioned a so-called "housing absorption" survey by Economics Research Associates, a consultancy with offices in a half-dozen American metropolitan areas.

That study, published in early 2000 to help determine the possibility of residential development atop the Transit Center, then proposed for another downtown site altogether, held out a view that was startling at the time.

It projected "demand for 1,000 new housing units in downtown Knoxville over the next 10 years," a number that was thought optimistic when it was released. But the consultants had benefit of measured trends in other Southeastern cities about Knoxville's size, such as Greenville and Asheville, N.C., and Chattanooga, where downtown housing demand was growing and being filled throughout the previous decade.

That projection will have been more than half-filled by the end of this year, not counting the Summit Towers elderly apartments off Summit Hill or any new housing units on the South Bank of the Tennessee River across from downtown.

And the PBA's Burch points out that "those numbers are ancient now. So much has happened to generate more interest and demand in the past couple or three years that the projection has to be low."

Just since the first of '05 there have been 362 residential building permits issued in the downtown and adjoining census tracts, according to the Metropolitan Planning Commission statistics. Ninety-five of those have been for new construction, with 267 for renovation or alteration. The total value of the permitted work is listed at \$9.5 million.

Fire Street Lofts

Blaise Burch says it's his opinion that there is a market for more new construction, such as the waterfront condos above Volunteer Landing that have sold well. He thinks that market is unsatisfied by the loft developments in older buildings that don't appeal to some people who would like to move into or close by the downtown center.

"I can't tell you how many people call me wanting to live downtown," says Michele Hummel, executive director of

the Central Business Improvement District organization. "I think the future is bright [for downtown residency] and that the trend's just going to continue."

Kimberly Dixon Hamilton, the founder and principal salesperson for Downtown Realty, says her condominium-buying clients include reverse-commuting Oak Ridge engineers, along with other West Knoxville professionals. She says she gets calls from interested parties from Florida and California, seeking to relocate their first or second homes to downtown Knoxville and from "investors" who wish to buy downtown Knoxville residences to hold for resale down the road on the premise that urban-living prices are going to continue to rise and that Knoxville is still a good buy.

Hamilton, whose husband is with the U.S. Attorney's office here, came to Knoxville a little over three years ago and got in on one of the "ground-floor" redevelopment properties as a management and sales agent. She worked for Leigh Burch (no kin to PBA's Burch), developer of the Sterchi Lofts, 101 apartments in the former furniture company building in the 100 block of South Gay Street, which opened in 2002. She moved with Burch to the Lerner Lofts, the first full-fledge condo rehab of a former commercial building downtown, at 302 S. Gay, and when those sold out, she struck out on her own.

She now handles the Y.M.C.A. building's Crown Court condo conversions under construction on Union Avenue at Locust Street, where she says 11 of 14 units have pre-sold; the Keystone Building on Church Avenue across from the old News Sentinel site, where she herself lives in one of five units that have sold and are reselling after only eight months; the half-sold Burwell Building (owned by Metro Pulse publisher Brian Conley) is up to 13 units; and the first phase of 20 units in CityView at Riverwalk, a planned 122-unit condo development on the site of the Knoxville Glove Factory just west of the Henley Bridge on the South Bank of the Tennessee. Those are also half-sold before groundbreaking, she says.

She says the buyers at the Keystone include two couples who have put their units up for resale to buy larger units in Dewhirst's Fire Street Lofts, 37 condos along Jackson Avenue a block east of Gay in the former Underground building. "They're going to come out very well," she says, on their Keystone investment.

That makes sense, in that the Lerner Lofts, the initial condo rehabs, sold for between \$115 and \$140 a square-foot, pricey for the 2002-03 period in which they came on the market, but the cost of finished space in downtown buildings fitted for residential purposes is pushing through the \$200-a-foot barrier.

"If you'd have told me then that we'd be at \$200-a-foot now, I'd have laughed. I never thought I'd see it," says Tommy Schmid, Knox County regional president of BankEast, the first local financial institution to finance a downtown condo redevelopment (the Lerner Lofts).

That figure doesn't seem way out of line when you look at the \$300-plus-per-foot prices being asked in Nashville, where the 32-story Viridian Tower's 225 condo units under construction along Church Street just up from Printer's Alley are selling quickly. The 55-story Signature Tower, also on Church, has 750 units being pre-sold. Penthouses there, in what is to be Tennessee's tallest building, are commanding \$500 per-foot.

Goss, whose partnership in Nashville redid two buildings, including the former Nashville Banner Building, into 47 condo units in the first such redevelopment project on Church, says 45 of the units were pre-sold when the structures, re-dubbed Exchange Place, opened last fall. They were in the \$200-plus per-foot class. Goss says his group's success with Exchange Place virtually enabled the financing of the newer towers, built from the ground up on surface parking lots.

"Who's buying? Who's paying those kinds of prices?" asks Schmid, rhetorically. His bank also financed the Fire Street Lofts, which are virtually pre-sold, according to Dewhirst, who also has the Holston's 42 units underway at the corner of Gay and Union in Knoxville in the former Hamilton Bank building, and the Cherokee building at Church and Market underway toward a planned 13 units.

Even though he's astonished by the prices, Schmid says BankEast remains a financing source. "What we have done

was closed more than a year ago...not that we haven't tried for more."

The Phoenix

Schmid says his estimate is that in Knoxville's downtown "the market has changed dramatically—for the good—just in the past two years. I live out West," he says, "but I'm excited about it. It'll be interesting to see how it develops in the next two or three years."

He says he'd like to see another housing absorption study done on the downtown, but he indicated that conditions may be changing too quickly to make one useful, and with pre-sales rates running as high as they are, financial institutions aren't requiring them.

Gretchen Beal, the manager of information services for the Metropolitan Planning Commission, which keeps track of building permits for rehab or construction downtown and throughout Knox County, says she doesn't understand how the prevalent price structure can be met by prospective buyers of downtown condos, but she hastens to add that the demand is obviously there, and someone's paying for the privilege of living downtown. The door seems open to someone who would rehab smaller, less pricey, condos, Beal believes, but no one has come forward with plans for such units as yet.

Goss says the city and county combined have more than 275,000 housing units [the Census Bureau's 2004 estimate was 283,000], with minimal vacancy rates. More than 200,000 of those, or 71.4 percent, were owner-occupied.

"If just 1 percent of those people want to live downtown, that's a lot of housing units yet to be built out," Goss says. In fact, if that 1 percent guess is true, the demand would be double the 2000 estimate. And, the Knoxville downtown represents the closest thing to urbanity in a much wider region with as many as a million people, some of whom are surely looking to locate here, as Hamilton's Oak Ridge clients show.

But a lot of variables go into measuring and projecting that demand, including the future state of the national and local economies, interest rates, which Schmid and the developers and agents say are still very reasonable to date, and the desires of the people who make up the demand. Most are in their 20s, with no children, or 45-plus, with children who have moved on. Retirees with substantial investment incomes also make up a significant part of that market, say the developers, but families with children are still skeptical of living downtown because of the lack of yard space and the perception that the public schools serving the downtown are inferior to those in suburbia.

"I'd love to see a private school open up downtown," says Hamilton, whose sales would obviously benefit from the opening up of another market segment. Plans once on the drawing board for a university school in the World's Fair Park vicinity, in a cooperative arrangement between UT and Knox County schools, were scrapped almost 20 years ago when the county chickened out, blaming its school board's negative attitude on the feeling that the university wanted absolute control over programs and curriculum. It was envisioned as a downtown magnet school, with UT's department of education participating and experimenting, but it came to naught.

Shopping, Hamilton says from experience, is not as big a problem as some people may see. She says groceries and pharmacies are plentiful a couple of miles down Chapman Highway, that a new Food City is about to open even closer, on Western Avenue, and that the proposed specialty food market in a former Watson's department store building on the west side of Market Square, though months behind schedule, is not dead yet.

A downtown druggist would fill the other most pressing need, she says, as the empty nesters—Baby Boomers in age—are developing more health needs as they grow older.

Parking, an old downtown bugaboo, is widely available in the city's core nowadays, with the opening of the Market Square Garage's 600 spaces to complement the existing garage and surface lot spaces that are never full. Most, but not all, developers are arranging or providing for additional parking as they prepare to sell or rent residential units. Otherwise, unless the parking is obviously nearby and cheap, the units won't sell or lease as quickly.

Ten years ago, the Pembroke (39 units) on Union and Kendrick Place (13 units) down that street at Locust, and

Ryan's Row (nine units) atop Summit Hill, were practically the only condos available downtown, except for some isolated upper-floor units scattered around in older buildings.

By the end of last year, the total number of units occupied or well underway easily exceeded 500, and the level of fittings and amenities in the newer apartments and condos was rising rapidly to counter what Goss says was a consistent criticism that developers were hearing about downtown space.

Leigh Burch, who is now undertaking a major rehab project in Pittsburgh, Pa., outfitted his Sterchi Lofts nicely, as did Dewhirst for his 40 apartment units in the Emporium Building next door. Burch, however, took historic preservation tax credits, meaning he couldn't sell his lofts for five years under federal rules. They will go on the market as condos at the end of that period, sometime in 2007, Burch has said. If the style he employed, industrial chic, is still in vogue by then, he should have no trouble selling them, his competitors say. At \$200 a square-foot or more, they should produce a tidy profit over their 2000-02 acquisition and construction costs, and they've remained pretty well filled, despite a high turnover rate, Burch has said. If Burch is able to sell those lofts, many of which are smaller than most of the loft conversions downtown, at a reasonable price, they would offer a downtown choice for members of the lower middle-income demographic who've been effectively shut out of the market by rising prices and larger, more extravagantly appointed units.

It is those acquisition and construction costs today that have downtown developers concerned. The prices they must get for condos have driven some prospects out of the market, and the laws of economics say that every price increment eliminates some prospective purchaser. The November 2005 spike in building materials' costs that arose from coastal hurricane damage and recovery has eased somewhat, as suppliers geared up for the heightened demand, but the costs for transporting materials and hiring the tradesmen to do the construction work has not receded. As the PBA's Burch says, it's getting harder and harder to find tradesmen and -women, and the cost edges upward to meet the demand from builders of all residential, commercial and public projects.

"The upward curves of acquisition costs and construction costs are rising faster than the sales prices, and those curves have to come back together somehow, Goss says.

So here, as nationally, there is no "housing bubble," whether downtown or anywhere else people want to live. Occupancy rates for owner-occupied housing remain well above 98 percent, as they have for almost 10 years, the Census Bureau reports, and the demand for additional housing units does not diminish when population is rising across the board.

The PBA now has contingency plans, in concept only, for up to 600 housing units in the air rights atop the Transit Center on State Street, if the market supports their construction once the Transit Center is being built.

But for downtown Knoxville, as elsewhere, there may well be a "price bubble" out there somewhere in the future, Blaise Burch says he believes, that could burst and douse the bulk of the demand. "I wouldn't hazard a guess when that might come. There are far too many interconnected facets on which the whole market depends," he says, "and the market sure seems solid today."

He's hardly alone there. No one who agreed to talk with Metro Pulse about the downtown residence picture would talk in terms of a ceiling, and no one would speculate on how high the demand itself will rise. No one suggested it might be a fleeting fad either. There's too much investment already for that to occur, and the gaggle of skeptics and nay-sayers of a decade ago who were telling downtown developers that their ideas were pipedreams have all quieted down. Some of those skeptics are even buying condos right in the middle of things, Dewhirst says, and he insists that he isn't joking.