

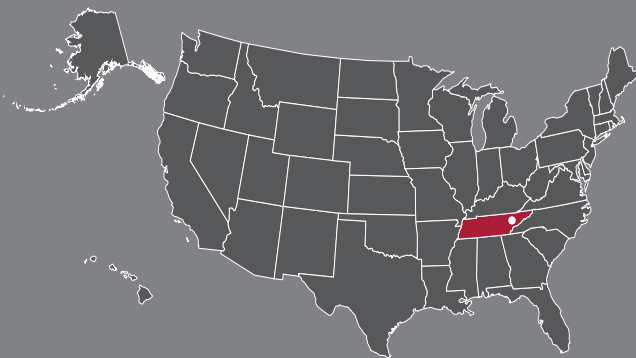
HUD PD&R Housing Market Profiles

Knoxville, Tennessee



Quick Facts About Knoxville

- **Current sales market conditions: balanced**
- **Current apartment market conditions: balanced**
- **The Knoxville metropolitan area, in the Great Appalachian Valley, straddles the Tennessee River and is near the Great Smokey Mountains National Park.**



By Karen M. Ostrye | As of October 1, 2018

Overview

The Knoxville metropolitan area is conterminous with the Knoxville, TN Metropolitan Statistical Area and comprises Anderson, Blount, Campbell, Grainger, Knox, Loudon, Morgan, Roane, and Union Counties. The principal city of Knoxville is in Knox County. Large government institutions such as the U. S. Department of Energy (DOE), which employs 13,000 people, and University of Tennessee (UT), with nearly 29,000 students and 6,700 employees—6,475 of which are full-time—provide a stable base of employment and support growth in the professional and business services and the wholesale and retail trade sectors. Proximity to the Great Smokey Mountains National Park and the popularity of the UT Volunteers football team draw tourism dollars that support jobs in the leisure and hospitality sector. Tourists spent \$1.1 billion in Knox County in 2017 (Tennessee Department of Tourist Development).

- As of October 1, 2018, the estimated population of the Knoxville metropolitan area is 887,000, reflecting an average annual increase of 5,850, or 0.7 percent, since 2010. Net natural change (resident births minus resident deaths) averaged 400 people annually, and net in-migration averaged 5,450 people, accounting for 93 percent of population growth during the period.

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- From 2010 to 2015, the population grew by an average of 4,325, or 0.5 percent, annually. Because of stronger economic growth in recent years, population gains have accelerated. From 2015 to the current date, the population grew by an average of 8,175, or 0.9 percent, annually.
- From 2010 to 2015, net natural change averaged approximately 375 annually, whereas net in-migration averaged 3,950 annually. Since 2015, net natural change averaged approximately 300 annually while net in-migration increased substantially, to an

average of 7,875 people annually. The number of people in the Knoxville metropolitan area aged 20 to 44 has grown more slowly than the overall population, remaining flat in the 2000s and growing an average of 0.3 percent annually from 2010 to 2017. The number of people aged 65 and older has grown more rapidly, 2.0 percent annually during the 2000s and 3.0 percent annually from 2010 to 2017 (Census Bureau decennial census and population estimates as of July 1), which contributed to the slowing of net natural change in the Knoxville metropolitan area.

Economic Conditions

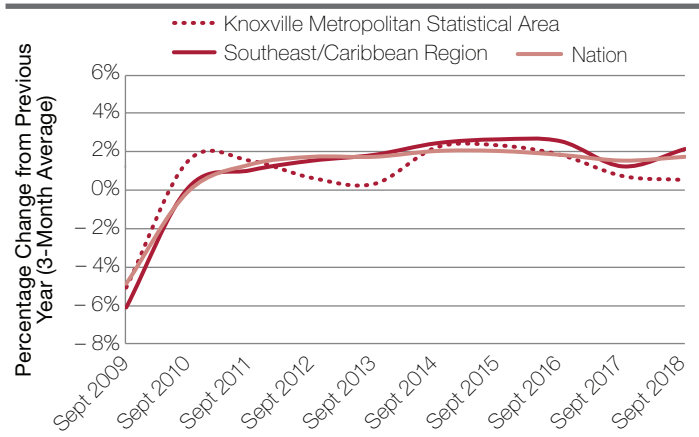
The local economic recovery from the impacts of the Great Recession began in 2011, and nonfarm payrolls increased by an average of 5,400 jobs, or 1.4 percent, annually from 2011 through 2017. Recently, the metropolitan-area growth has slowed slightly.

During the 3 months ending September 2018 —

- The average unemployment rate was 3.6 percent, up slightly from 3.4 percent during the 3 months ending September 2017.
- Nonfarm payrolls increased by 2,100, or 0.5 percent, to 397,500 jobs. By comparison, nonfarm payrolls increased 0.7 percent during the same period the previous year.
- Nonfarm payroll growth was greatest in the manufacturing sector, which increased by 2,200 jobs, or 5.7 percent, to 40,800. An extensive group of automobile components

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Nonfarm payroll growth has slowed since 2016 in the Knoxville area.



Note: Nonfarm payroll jobs.
Source: U.S. Bureau of Labor Statistics

The education and health services sector has declined in the past 3 months in the Knoxville area.

	3 Months Ending		Year-Over-Year Change	
	September 2017 (Thousands)	September 2018 (Thousands)	Absolute (Thousands)	Percent
Total Nonfarm Payrolls	395.4	397.5	2.1	0.5%
Goods-Producing Sectors	57.0	60.5	3.5	6.1%
Mining, Logging, & Construction	18.4	19.7	1.3	7.1%
Manufacturing	38.6	40.8	2.2	5.7%
Service-Providing Sectors	338.4	337.0	- 1.4	- 0.4%
Wholesale & Retail Trade	64.3	65.2	0.9	1.4%
Transportation & Utilities	13.5	14.1	0.6	4.4%
Information	5.8	5.6	- 0.2	- 3.4%
Financial Activities	19.5	19.1	- 0.4	- 2.1%
Professional & Business Services	64.8	65.0	0.2	0.3%
Education & Health Services	54.2	51.1	- 3.1	- 5.7%
Leisure & Hospitality	42.9	44.0	1.1	2.6%
Other Services	15.0	15.1	0.1	0.7%
Government	58.4	57.7	- 0.7	- 1.2%
	(Percent)	(Percent)		
Unemployment Rate	3.4%	3.6%		

Source: U.S. Bureau of Labor Statistics



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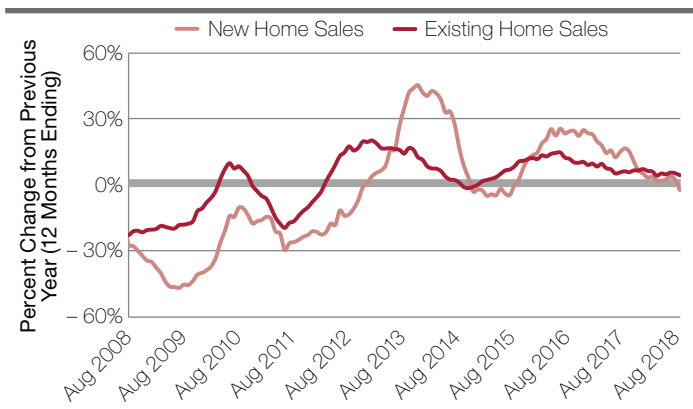
manufacturers, such as SL America Corp., Denso Manufacturing Tennessee, Inc., and ARC Automotive, Inc., grew in the metropolitan area, as Tennessee emerged as an automobile manufacturing center. DENSO Manufacturing Tennessee, Inc., an automobile parts manufacturer, is on schedule to add 1,000 jobs by 2020.

- The mining, logging, and construction sector, which increased by 1,300 jobs, or 7.1 percent, to 19,700, had the second largest gain. Higher levels of residential building added to this gain. The third largest growth was in the leisure and hospitality sector, which gained 1,100 jobs, or 2.6 percent, to 44,000.
- The education and health services sector sustained the largest number of job losses, decreasing by 3,100 jobs, or 5.7 percent, accompanied by major employer, Tennova Healthcare's announcement of an undetermined number of future layoffs.

Sales Market Conditions

The Knoxville metropolitan area home sales market is balanced, with a current estimated vacancy rate of 2.4 percent, down from 2.8 percent in 2010 when the market was soft. Recent job and population growth have contributed to improvements in sales market conditions since 2010. The inventory of existing homes for sale was 2.4 months in August 2018 compared with a 3.0-month supply a year ago (Knoxville Area Association of Realtors). In August 2018, 1.5 percent of home loans in the metropolitan area were seriously delinquent (90 or more days delinquent or in foreclosure) or had transitioned into real estate owned (REO) status, down from 2.0 percent a year earlier and well below the peak of 5.2 percent during January 2010. This percentage was lower than 1.8 percent of seriously delinquent loans and REO properties nationally in August 2018, down from 2.2 percent a year earlier and

New and existing home sales have increased in the wake of the Great Recession since 2011 in the Knoxville area.



Note: New and existing single-family, townhomes, and condominiums
Source: CoreLogic, Inc., with adjustments by the analyst

Largest Employers in the Knoxville Area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
U.S. Department of Energy	U.S. Government	13,000
Covenant Health	Education & Health Services	9,325
University of Tennessee	Government	6,700

Note: Excludes local school districts.

Source: Knoxville-Oak Ridge Innovation Valley Economic Development

Despite recent increases, payrolls in the manufacturing sector remain 19 percent below the level in 2000. Research conducted by Oak Ridge National Laboratory (ORNL), DOE's largest science and energy laboratory, and UT is expected to continue to contribute to growth in the manufacturing and the professional and business services sectors. LeMond Composites is expected to add approximately 240 new jobs during the next 5 years, beginning production of carbon fiber composites. HTS International Corporation is investing \$21.4 million and adding 200 jobs by 2020, creating a research and development lab.

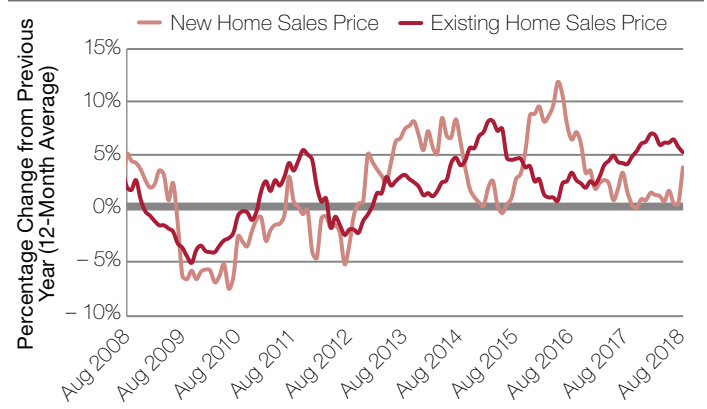
a high of 8.6 percent in January 2010. The stability of the DOE and UT, which fluctuates less with expansions and contractions in the national economy, contributed to the lower level of foreclosures in the metropolitan area.

During the 12 months ending August 2018—

- New home sales totaled 1,525, down 2 percent from the 1,575 sales a year ago, after a 17-percent gain in the previous 12-month period. Existing home sales totaled 20,650, up 5 percent from the previous 12-month period.
- The average sales price for a new home was \$271,600, an increase of 4 percent from a year earlier (CoreLogic, Inc.,

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New and existing home sales prices have increased with improving economic conditions since 2013 in the Knoxville area.

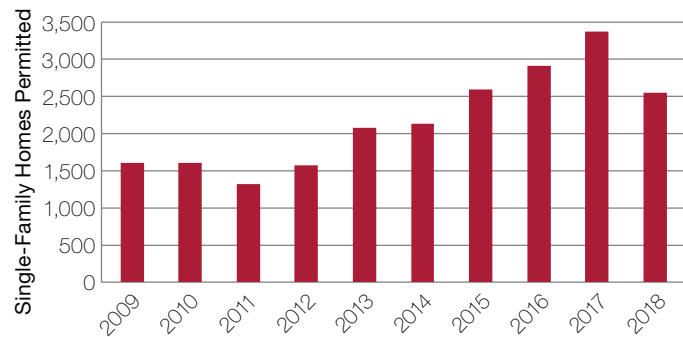


Note: Prices include single-family, townhomes, and condominiums.
Source: CoreLogic, Inc., with adjustments by the analyst



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Homes permitted have increased since 2014 in the Knoxville area due to strengthening economic conditions.



Note: Includes preliminary data from January 2018 through September 2018. Source: U.S. Census Bureau, Building Permits Survey

with adjustments by the analyst). New home sales prices are \$43,000, or 31 percent, above the 2010 low.

- The average sales price of an existing home was \$181,800, an increase of 5 percent from a year earlier, up from a 4-percent increase during the previous 12 months.
- REO sales comprised nearly 4 percent of existing home sales, down from almost 6 percent a year ago and from a high of 17 percent during 2013.

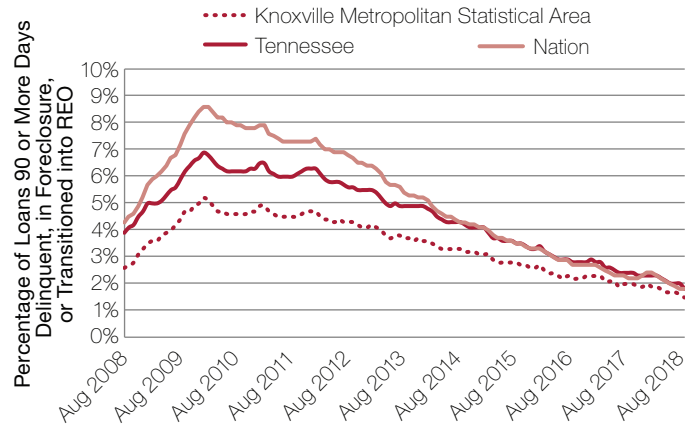
Single-family homebuilding activity, as measured by the number of homes permitted, has increased since 2014 and has been concentrated along the Interstate 40 corridor and in northwestern Knox County in the Karns, Farragut, and Hardin Valley areas, spilling into Anderson County.

- The number of single-family homes permitted totaled 3,275 during the 12 months ending September 2018, an increase of 9 percent from the 3,000 homes permitted during the previous 12 months (preliminary data).

Rental Market Conditions

The rental housing market (including single-family homes, mobile homes, and apartments) in the Knoxville metropolitan area is currently balanced, with an overall estimated rental vacancy rate of 7.5 percent, down from 10.5 percent in April 2010. Apartment market conditions in the metropolitan area are currently balanced, with an average vacancy rate of 3.7 percent during the third quarter of 2018, down from 3.8 percent a year earlier and well below the past decade-high rate of 7.9 percent in 2009 (Reis, Inc.). Increased renter household growth and an expanding economy, which resulted in increased net in-migration, contributed to the decline in apartment vacancy rates compared with the late 2000s.

Foreclosures were below state and national averages in the past 10 years in the Knoxville area.



REO = real estate owned.

Source: CoreLogic, Inc., with adjustments by the analyst

- From the recent low of approximately 1,325 homes permitted in 2011, to the recent high of 3,375 homes permitted during 2017, single-family permitting increased by an average of 340 homes, or 17 percent, a year.
- The Battery at Berkeley Park offers homes from 2,670 to more than 3,600 square feet, with prices starting at \$321,000. This subdivision, 1.5 miles from the popular Turkey Creek commercial center, offers 10 acres of green space set aside for community use and has 54 homes completed of 85.
- Morganton Reserve, west of Maryville in Blount County, is building 98 homes with three to five bedrooms, ranging from \$247,000 to \$297,000. This housing development, three-fourths of which is sold, attracts retirees due to its proximity to the mountains and attracts families because of its employment centers.

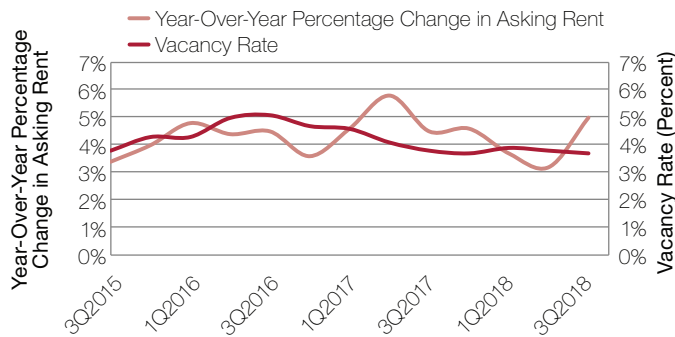
- During the third quarter of 2018, the average apartment rent increased 5 percent, to \$759, from a year earlier, the same percent increase as the previous year.
- Since 2014, the apartment vacancy rate has fluctuated between 3.6 percent and 5.1 percent as new developments were completed and subsequently absorbed.
- During the third quarter 2018, the apartment vacancy rate in the Reis-defined Central/Southeast Knoxville market area, near the university was 2.3 percent. The average rent was \$740, \$19 lower than the overall metropolitan area, because more than

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Market rents have increased and vacancy rates have fallen since the fourth quarter 2016 in the Knoxville area.



Source: Reis, Inc.

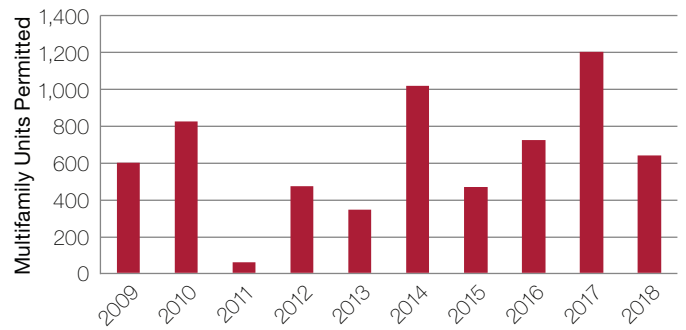
three-fourths of the apartments in this market area are Class B and C, whereas 57 percent of the apartments are Class B and C in the metropolitan area overall. These have an average rent of \$697, about 20 percent less than the average Class A rent of \$878. Some private apartments near the university cater to student households, which currently account for almost 7 percent of all renter households in the metropolitan area, with roommate pairing and amenities geared to the college students.

- The average apartment rent is greater in the Reis, Inc.-defined Southwest Knoxville market, where employment centers and entertainment venues are more concentrated. The average rent for apartments in this area was 14 percent higher than the average rent in the overall Knoxville metropolitan area during the third quarter of 2018.

In response to improved economic conditions and strong rental demand, multifamily construction in the metropolitan area has increased since 2014.

- Multifamily construction activity, as measured by the number of units permitted, totaled 1,050 during the 12 months ending September 2018, up from 910 units a year earlier (preliminary data). By comparison, an average of 550 units were permitted annually from 2010 through 2013 and an average of 930 annually during the 2000s.

The number of multifamily units permitted has increased since the end of 2013 in the Knoxville area in response to stronger renter household growth.



Note: Includes preliminary data from January 2018 through September 2018.

Source: U.S. Census Bureau, Building Permits Survey

- An estimated 1,825 multifamily units are currently under construction in the metropolitan area concentrated in the northwest part of Knox County and the center of the metropolitan area along the Interstate 40 corridor.
- Tapestry at Turkey Creek, in western Knox County, has just been completed and is currently in lease-up. This 220-unit development is near the Interstate 40 corridor and Turkey Creek commercial center and offers one-bedroom units from \$1,085 to \$1,345, two-bedroom units from \$1,220 to \$1,525, and three-bedroom units from \$1,470 to \$1,695.
- Construction is underway at the Waterstone Apartments in Hardin Valley, which is part of a cluster of developments near ORNL. The 252-unit development is expected to be completed by early 2019 and offers one-bedroom units from \$984 to \$1,084, two-bedroom units from \$1,219 to \$1,319, and three-bedroom units for \$1,539.
- TENN Student Apartments, a 140-unit apartment complex near campus, is expected to be completed in early 2019, with rents per bed ranging from \$789 to \$815 for five-bedroom units, \$745 to \$830 for four-bedroom units, and \$780 to \$855 for three-bedroom units. Units are geared to students, located near the university with college-oriented amenities, and are often rented per bed with roommate pairing.

