

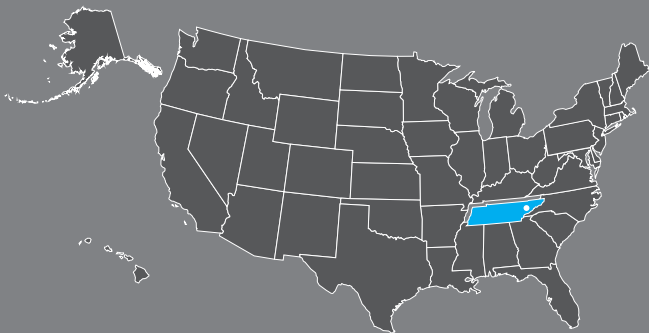
# HUD PD&R Housing Market Profiles

## Knoxville, Tennessee



### Quick Facts About Knoxville

- **Current sales market conditions: slightly soft.**
- **Current apartment market conditions: balanced.**
- **The Knoxville metropolitan area is home to the University of Tennessee, Knoxville; the U.S. Department of Energy Oak Ridge National Laboratory; McGhee Tyson Air National Guard Base; and several automotive parts manufacturers.**



By Gareth Amon | As of October 1, 2014

### Overview

The Knoxville metropolitan area comprises Anderson, Blount, Knox, Loudon, and Union Counties in east Tennessee. Knox County, which includes the city of Knoxville, is the core county and the center of population and economic growth in the metropolitan area. The U.S. Department of Energy (DOE), the largest employer in the metropolitan area, employs 12,000 people with annual payrolls of nearly \$1.1 billion, generates 29,900 direct and indirect jobs, and has an annual economic impact of more than \$2.4 billion (DOE data). The University of Tennessee, Knoxville (UT), in the city of Knoxville, employs 9,275 staff and faculty and has an annual economic impact of \$605.3 million. The military presence in the metropolitan area has a \$943 million annual economic impact, with the greatest portion being from McGhee Tyson Air National Guard Base, which contributes about \$138 million (East Tennessee Military Affairs Council).

- As of October 1, 2014, the population of the Knoxville metropolitan area was an estimated 721,600, which reflects an average gain of 5,250, or 0.7 percent, annually since April 2010. The city of Knoxville is the largest city in the metropolitan area, with a population of 183,300.

continued on page 2



continued from page 1

- The population of the metropolitan area grew by an average of 10,900, or 1.6 percent, annually from July 2005 to July 2008, when the economy was expanding. Population growth then slowed to an average of 5,375 people, or 0.8 percent, annually from July 2009 to July 2013 as a result of the recession and slow recovery.

- Net in-migration has averaged 4,050 people annually, or 77 percent of population growth, since 2010, down from an average of 8,925 people, or 81 percent of population growth, annually from July 2005 to July 2008.

## Economic Conditions

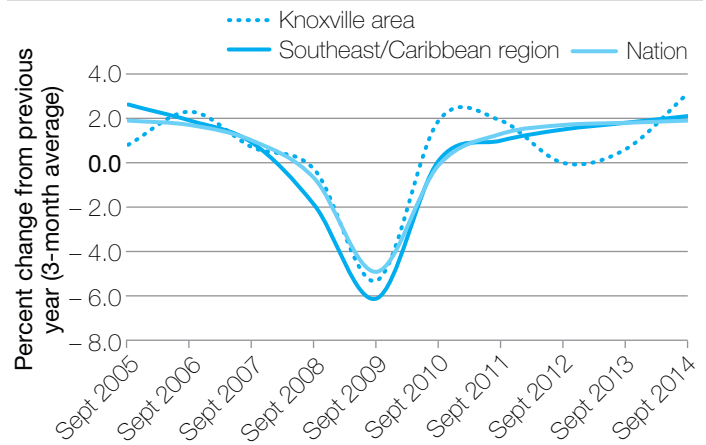
Nonfarm payrolls have increased in the Knoxville metropolitan area since 2010, and during the third quarter of 2014 the rate of growth surpassed the rates of the Southeast/Caribbean region and the nation. The national recession, which officially started in December 2007 and ended in June 2009, caused nonfarm payroll growth in the metropolitan area to cease in 2008 and then decline in 2009 by 15,100 jobs, or 4.5 percent. The government sector and the diverse economic base, however, helped the metropolitan area recover jobs beginning in 2010.

During the third quarter of 2014—

- Nonfarm payrolls increased by 10,400 jobs, or 3.1 percent, to 342,800 jobs compared with nonfarm payrolls during the third quarter of 2013; payrolls in 6 of the 11 sectors increased by 1,000 or more jobs.
- The greatest growth in nonfarm payrolls occurred in the professional and business services sector, which increased by 2,800

continued on page 3

During the third quarter of 2014, nonfarm payrolls increased at a faster rate in the Knoxville area than in the Southeast/Caribbean region and the nation.



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

### Six employment sectors in the Knoxville area increased by more than 1,000 jobs.

	3 Months Ending		Year-Over-Year Change	
	September 2013 (thousands)	September 2014 (thousands)	Absolute (thousands)	Percent
<b>Total nonfarm payrolls</b>	332.4	342.8	10.4	3.1
Goods-producing sectors	46.9	49.1	2.2	4.7
Mining, logging, and construction	15.6	16.8	1.2	7.7
Manufacturing	31.3	32.3	1.0	3.2
Service-providing sectors	285.5	293.7	8.2	2.9
Wholesale and retail trade	57.4	58.5	1.1	1.9
Transportation and utilities	12.2	12.4	0.2	1.6
Information	5.6	5.5	-0.1	-1.8
Financial activities	17.3	17.6	0.3	1.7
Professional and business services	49.6	52.4	2.8	5.6
Education and health services	45.5	46.6	1.1	2.4
Leisure and hospitality	37.2	39.5	2.3	6.2
Other services	13.4	13.6	0.2	1.5
Government	47.4	47.7	0.3	0.6
	<b>(percent)</b>	<b>(percent)</b>		
Unemployment rate	7.1	6.2		

Note: Numbers may not add to totals because of rounding.  
Source: U.S. Bureau of Labor Statistics



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jobs, or 5.6 percent, from the third quarter of 2013. During the first quarter of 2014, the professional and business services sector increased to become the second largest sector in the metropolitan area, barely surpassing the government sector.

- The government sector increased by 300 jobs, or 0.6 percent, from the third quarter of 2013, when the state and local government subsectors added jobs. DOE, McGhee Tyson Air National Guard Base, and UT provide stability to the government sector, which comprised 47,700 jobs, or nearly 14 percent of all non-farm payrolls in the metropolitan area.
- The average unemployment rate declined to 6.2 percent from 7.1 percent during the third quarter of 2013 in part because of a labor force decline.

The Knoxville metropolitan area is home to 16 major automotive parts manufacturers that provide a combined 9,850 jobs. During the third quarter of 2014, the manufacturing sector increased by 1,000 jobs, or 3.2 percent, from the same period a year ago, as

a result of growth in the automotive parts manufacturing industry. Automotive parts manufacturers Knoxville Locomotive Works, ARC Automotive, Inc., and SL Tennessee, LLC, have invested \$89.6 million since September 2013 for new production facilities that will create 1,225 jobs during the next 3 years. In addition, Alcoa Inc. is in the midst of a \$275 million expansion that will produce recyclable aluminum sheets for automotive production and create 200 jobs by mid-2015.

### Largest employers in the Knoxville area

Name of Employer	Nonfarm Payroll Sector	Number of Employees
U.S. Department of Energy	Government	11,975
University of Tennessee, Knoxville	Government	9,275
Covenant Health	Education and health services	9,125

Note: Excludes local school districts.

Sources: U.S. Department of Energy; Knoxville Chamber; University of Tennessee

## Sales Market Conditions

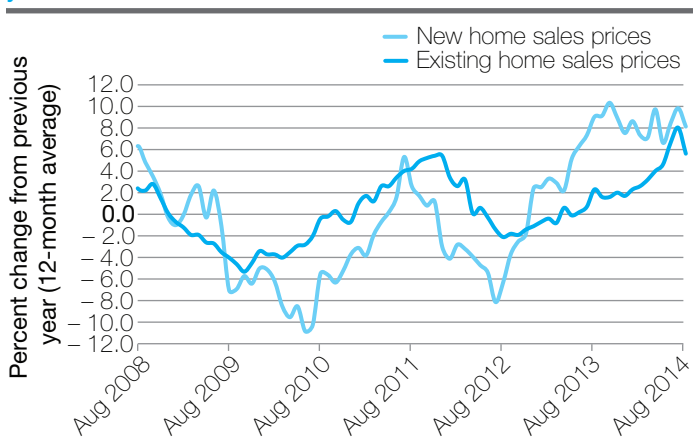
The sales housing market in the Knoxville metropolitan area is slightly soft, with a 1.9-percent vacancy rate, down from 2.9 percent in April 2010. During the 12 months ending August 2014, 1,050 new single-family homes, townhomes, and condominiums sold, an increase of approximately 20 percent compared with the number sold a year ago, and the average new home sales price increased 8 percent, to \$247,900. During the same period, 11,700 existing single-family homes, townhomes, and condominiums sold, a decrease of nearly 4 percent compared with the number sold a year

ago, in part because of a decline in REO (Real Estate Owned) sales, and the average existing home sales price increased nearly 6 percent, to \$167,100 (CoreLogic, Inc., with adjustments by the analyst).

- The percentage of existing home sales in the metropolitan area that were REO transactions peaked at 17 percent in the 12 months ending June 2013 before declining to approximately 13 percent during the 12 months ending September 2014 because of the increased level of home sales in the metropolitan area.

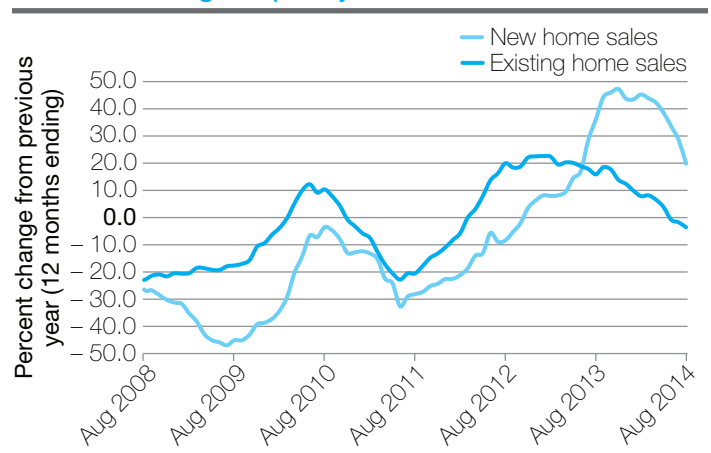
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### New home sales price increases have outpaced existing home sales price increases for more than a year in the Knoxville area.



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

### New home sales increased but existing home sales declined during the past year in the Knoxville area.



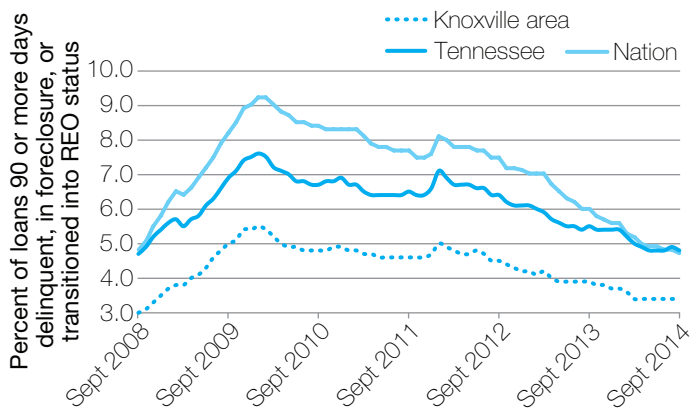
Note: Includes single-family homes, townhomes, and condominiums. Source: CoreLogic, Inc., with adjustments by the analyst



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- As of September 2014, 3.4 percent of mortgage loans were 90 or more days delinquent, were in foreclosure, or transitioned into REO status, down from 3.9 percent a year earlier and below the peak of 5.5 percent in January 2010 (Black Knight Financial Services, Inc.). The rate of distressed mortgages and REO properties in the metropolitan area is below the 4.8- and 4.7-percent rates for Tennessee and the nation, respectively.
- Because existing home sales slightly decreased and homebuilding activity remained minimal, the inventory of unsold homes remained unchanged from September 2013, at a 9.8-month supply in September 2014 (Knoxville Area Association of REALTORS®, with adjustments by the analyst).
- Condominium sales increased during the 12 months ending September 2014 by 50 homes, or nearly 4 percent, compared with sales a year ago, to 1,300 units. During the same period, the average price of condominiums sold was \$164,400, up \$12,350, or more than 8 percent (Knoxville Area Association of REALTORS®).

The distressed loan rate historically has been lower in the Knoxville area than in Tennessee and the nation.

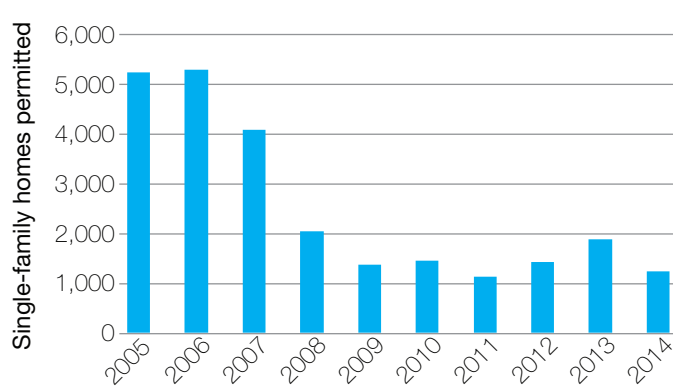


REO = Real Estate Owned. Source: Black Knight Financial Services, Inc.

Homebuilding activity remains low, because new home sales are approximately 60 percent lower than the peak levels in 2005 and 2006. During the 12 months ending September 2014, permits were issued for approximately 1,575 single-family homes, up 100 homes, or 7 percent, from the number permitted a year earlier (preliminary data).

- Homebuilding activity currently is approximately 70 percent less than during the peak years from 2005 through 2006, when an average of 5,275 homes were permitted annually.
- Homebuilding activity declined from 2007 through 2009 by an average of 1,325 homes, or 25 percent, annually, to 1,375 homes permitted in 2009. Homebuilding activity picked up slightly in 2010, when the number of homes permitted increased by 75, or 5 percent, to 1,450, as a result of the first-time homebuyer tax credit program.
- Yarnell Station is an 89-lot development currently under construction in Knox County, with single-family home prices ranging from \$199,400 to \$288,000.

Single-family home permitting has been low for 7 years in the Knoxville area.



Note: Includes preliminary data from January 2014 through September 2014. Source: U.S. Census Bureau, Building Permits Survey

## Apartment Market Conditions

The apartment market in the Knoxville metropolitan area is currently balanced, because construction of new apartment units lagged while the number of renter households, including student renters from UT, increased. Because of the significant role student renters have in the market, vacancy rates are historically lowest in the third quarter of the year, when students enroll for the fall semester and rent apartment units. UT enrolls 27,175 students and houses 7,300 students in on-campus housing; the remaining 19,875 students

reside off campus. Students account for an estimated 6,625 households, or nearly 7 percent of the overall renter households in the metropolitan area.

During the third quarter of 2014—

- The apartment vacancy rate in the metropolitan area was 5.0 percent, up from 4.5 percent during the third quarter of 2013 (MPF Research). The MPF-defined Downtown/University/South Knoxville market area, which includes UT and the surrounding

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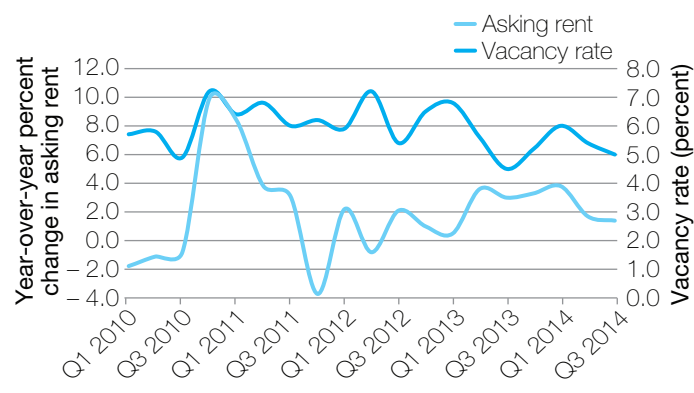
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area, maintains a lower vacancy rate because of the concentrated student demand; in the third quarter of 2014, this market area had a vacancy rate of 4.6 percent, down from 5.5 percent during the third quarter of 2013.

- During the past year, the construction of 205 apartment units was completed in the metropolitan area; 169 of those units were absorbed, resulting in a slight increase in the vacancy rate.
- The average apartment rent in the metropolitan area increased more than 1 percent, to \$771, from \$760 during the third quarter of 2013. The average asking rents for one-, two-, and three-bedroom units were \$643, \$786, and \$1,105, respectively. The average apartment rent in the Downtown/University/South Knoxville market area increased nearly 1 percent, to \$1,028, from \$1,018 during the third quarter of 2013.
- Rental concessions, which averaged \$41 a month, were offered by 12 percent of properties in the metropolitan area. By comparison, during the third quarter of 2013, 4 percent of properties offered concessions, which averaged \$38 a month (MPF Research). No known properties in the Downtown/University/South Knoxville market area offered concessions during the third quarter of 2014 or 2013.

Multifamily construction, as measured by the number of multifamily units permitted, was relatively unchanged in the Knoxville metropolitan area during the 12 months ending September 2014 as builders held production steady to maintain their current pipelines.

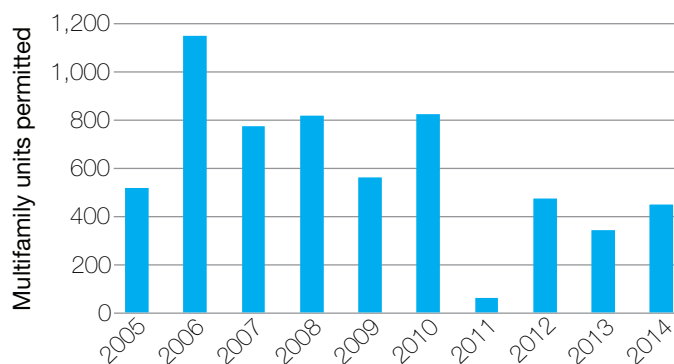
**The apartment market in the Knoxville area tightened because vacancy rates declined and rents increased.**



Source: MPF Research

- During the 12 months ending September 2014, permits were issued for approximately 510 multifamily units, unchanged from the number permitted a year earlier, keeping the market in balance as demand is absorbing nearly all new units (preliminary data).
- Multifamily permitting activity averaged 740 units annually from 2007 through 2010, before builders decreased production in 2011 to allow for the absorption of recently completed units. Only 60 units were permitted in 2011; in 2012 and 2013, as local economic conditions were improving, approximately 410 units were permitted annually.
- Approximately 1,000 apartment units are under construction in the metropolitan area, including 456 units in phases 1 and 2 at The Preserve at Hardin Valley in east Knox County.
- A 250-unit market-rate apartment development, Wellsley Park at Deane Hill, was recently completed; rents start at \$890, \$1,133, and \$1,405 for one-, two-, and three-bedroom units, respectively. A 56-unit second phase at The Landings Riverfront Apartments was completed in the spring of 2014; rents start at \$845, \$1,045, and \$1,345 for one-, two-, and three-bedroom units, respectively.
- UT completed the \$59 million Fred D. Brown Jr. Residence Hall, the first new residence hall on campus in 40 years, in the fall of 2013. The 250,000-square-foot residence hall provides 700 beds, and rents are \$3,200 or \$3,400 per bed per semester, depending on the room configuration.

**Permitting of multifamily units has remained relatively flat in the Knoxville area during the past 3 years, although apartment market conditions improved.**



Note: Includes preliminary data from January 2014 through September 2014. Source: U.S. Census Bureau, Building Permits Survey

