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.
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

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

<table>
<thead>
<tr>
<th>Employment Sectors</th>
<th>3 Months Ending September 2013 (thousands)</th>
<th>Year-Over-Year Change Absolute (thousands)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total nonfarm payrolls</td>
<td>332.4</td>
<td>342.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Goods-producing sectors</td>
<td>46.9</td>
<td>49.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Mining, logging, and construction</td>
<td>15.6</td>
<td>16.8</td>
<td>1.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>31.3</td>
<td>32.3</td>
<td>1.0</td>
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<tr>
<td>Service-providing sectors</td>
<td>285.5</td>
<td>293.7</td>
<td>8.2</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>57.4</td>
<td>58.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Transportation and utilities</td>
<td>12.2</td>
<td>12.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Information</td>
<td>5.6</td>
<td>5.5</td>
<td>–0.1</td>
</tr>
<tr>
<td>Financial activities</td>
<td>17.3</td>
<td>17.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Professional and business services</td>
<td>49.6</td>
<td>52.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Education and health services</td>
<td>45.5</td>
<td>46.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Leisure and hospitality</td>
<td>37.2</td>
<td>39.5</td>
<td>2.3</td>
</tr>
<tr>
<td>Other services</td>
<td>13.4</td>
<td>13.6</td>
<td>0.2</td>
</tr>
<tr>
<td>Government</td>
<td>47.4</td>
<td>47.7</td>
<td>0.3</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>7.1</td>
<td>6.2</td>
<td></td>
</tr>
</tbody>
</table>

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

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
As of October 1, 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®).

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.

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

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.

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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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.

- 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.

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

![Graph of Asking Rent and Vacancy Rate](Source: MPF Research)

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

![Bar Chart of Multifamily Units Permitted](Source: U.S. Census Bureau, Building Permits Survey)

Note: Includes preliminary data from January 2014 through September 2014.