



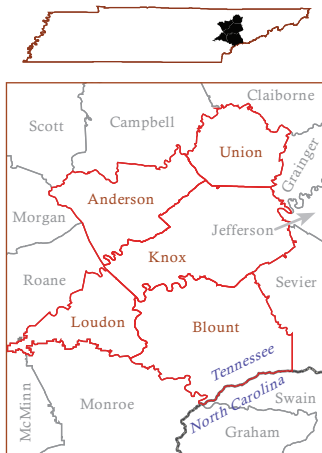
Knoxville, Tennessee

U.S. Department of Housing and Urban Development | Office of Policy Development and Research | As of January 1, 2011



Summary

Housing Market Area



The Knoxville Housing Market Area (HMA), located in eastern Tennessee along the North Carolina border, consists of Anderson, Blount, Knox, Loudon, and Union Counties. The principal city of Knoxville, located in Knox County, is a regional center for education and health care.

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Economy

The economy of the Knoxville HMA stabilized during the past year. During 2010, nonfarm payrolls increased by 0.5 percent compared with a decrease of 4.5 percent during the previous 12-month period. By the end of the 3-year forecast period, employment is expected to grow by 2.5 percent a year, with most gains likely to occur in the professional and business services sector. Table DP-1 at the end of this report provides employment data for the HMA.

Sales Market

The sales housing market in the HMA is soft, with an estimated sales vacancy rate of 2 percent. During the forecast period, employment and population gains are expected to support demand for 7,750 new market-rate sales housing units and an additional 150 mobile homes. The 250 homes currently under construction will satisfy a portion of that demand (see Table 1). In addition, a portion of the 18,500 other vacant units in the HMA may come back on the market and satisfy some of the demand.

Rental Market

The rental housing market in the HMA is currently balanced, with an estimated overall rental vacancy rate of 6.5 percent. During the past 18 months, the rental housing market has remained balanced because of decreased apartment construction, particularly in 2009. During the next 3 years, demand is expected for 2,250 new rental units (see Table 1). Approximately 700 apartments are currently under construction and will satisfy a portion of the forecast demand.

Table 1. Housing Demand in the Knoxville HMA, 3-Year Forecast, January 1, 2011 to January 1, 2014

	Knoxville HMA	
	Sales Units	Rental Units
Total Demand	7,900	2,250
Under Construction	250	700

Notes: Total demand represents estimated production necessary to achieve a balanced market at the end of the forecast period. Total sales demand includes an estimated demand for 150 mobile homes. Units under construction as of January 1, 2011. A portion of the estimated 18,500 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

Economic Conditions

The economy of the Knoxville HMA began to stabilize during the past year after nonfarm payroll jobs decreased by 15,100 jobs, or 4.5 percent, during 2009. During 2010, nonfarm payrolls increased by 1,600 jobs, or 0.5 percent, to 322,800 jobs (see Table 2). In comparison, from 2005 through 2008, annual gains averaged 3,300 jobs, or an increase of 1 percent. Despite the recent improvement, the HMA remains 13,500 nonfarm payroll jobs below the peak of 336,300 jobs recorded in 2008.

During the 12 months ending December 2010, hiring was strong in the professional and business services

sector, which added 2,000 jobs, an increase of 4.8 percent. Much of the growth in this sector is attributed to job creation in energy technology, in particular the solar power industry. As of the current date, approximately 21 companies statewide have received grants in excess of \$7 million to fund innovation in solar technology. Sustainable Future, a Knoxville solar installation company, was awarded two grants totaling more than \$300,000. In addition to the construction of new solar systems, funding will be used to equip an additional team of workers at the company to install and maintain existing infrastructure. In 2010, hiring in the transportation and utilities sector was also significant; the sector gained 500 jobs, or 5 percent, compared with the number of jobs reported during the previous year. Hiring in the sector primarily occurred in parcel services, freight liners, and local utility companies.

The government sector increased by 800 jobs, or 1.6 percent, during 2010 compared with the number of jobs recorded during 2009. Gains in the sector were primarily at the federal and state levels, and they marked the first overall increase in the government sector since 2006. Current and anticipated future expansions at the U.S. Department of Energy (DOE) and the University of Tennessee (UT) Knoxville helped stabilize the local economy during the past year. DOE, which includes Oak Ridge National Laboratories (ORNL), is the leading employer in the HMA, providing a total of approximately 13,200 jobs (see Table 3). UT Knoxville, located in downtown Knoxville, is the second leading employer in the area, with approximately 11,900 employees. UT Knoxville currently has several on-campus construction projects under way, totaling \$175 million, which includes the \$49 million Natalie L. Haslam Music Center. In addition

Table 2. 12-Month Average Nonfarm Payroll Jobs in the Knoxville HMA, by Sector

	12 Months Ending December 2009	12 Months Ending December 2010	Percent Change
Total Nonfarm Payroll Jobs	321,200	322,800	0.5
Goods Producing	46,050	45,350	-1.6
Mining, Logging, & Construction	16,250	16,000	-1.7
Manufacturing	29,850	29,350	-1.7
Service Providing	275,100	277,500	0.9
Wholesale & Retail Trade	57,000	56,300	-1.3
Transportation & Utilities	10,050	10,600	5.0
Information	5,475	5,400	-1.4
Financial Activities	17,200	16,750	-2.5
Professional & Business Services	42,000	44,000	4.8
Education & Health Services	44,150	44,650	1.1
Leisure & Hospitality	34,150	34,200	0.1
Other Services	14,650	14,400	-1.9
Government	50,500	51,300	1.6

Notes: Based on 12-month averages through December 2009 and December 2010. Numbers may not add to totals because of rounding.

Source: U.S. Bureau of Labor Statistics

Table 3. Major Employers in the Knoxville HMA

Name of Employer	Employment Sector	Number of Employees
U.S. Department of Energy	Government	13,200
University of Tennessee	Government	11,900
Covenant Health	Education & Health Services	8,975
Wal-Mart Stores, Inc.	Wholesale & Retail Trade	5,325
Mercy Health Partners	Education & Health Services	4,375
K-VA-T Food Stores, Inc.	Wholesale & Retail Trade	4,125
University Health System	Education & Health Services	3,725
State of Tennessee	Government	3,700
Clayton Homes	Manufacturing	2,525
Denso Manufacturing	Manufacturing	2,500

Source: Knoxville Chamber of Commerce—2009

to the projects currently under way, construction on the new \$23 million John Tickle Engineering Building is expected to begin in December 2011; data on employment opportunities expected from ongoing and future expansions are not yet available. According to the UT 2009 Chancellor's Report, a UT-ORNL partnership was formed to construct a new facility to house the Joint Institute for Advanced Materials. According to the same source, \$20 million in federal funding has been secured for the joint venture, which is expected to be located on the university's new Cherokee Campus in Knox County and to begin construction in 2011. ORNL and UT Knoxville have a combined estimated annual economic impact in excess of \$1 billion on the local economy.

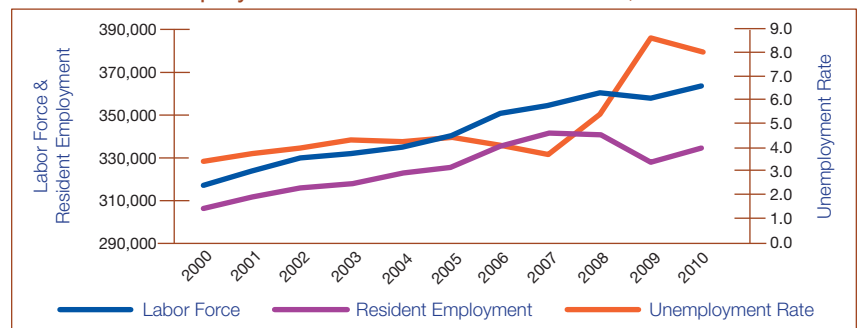
During 2010, despite recent job growth, significant declines continued in the financial services sector as layoffs for bankers, financial advisors, and real estate professionals contributed to a decrease of 400 jobs, or 2.5 percent, compared with the number of jobs recorded in that sector during the previous period. Likewise, during 2010, nonfarm payroll declines in the goods-producing sectors totaled 700 jobs, or 1.6 percent, compared with a decrease of 7,500 jobs, or 14 percent, during

2009. Losses were primarily concentrated in the manufacturing and construction sectors as builders responded to the softening home sales market by slowing the production of new units.

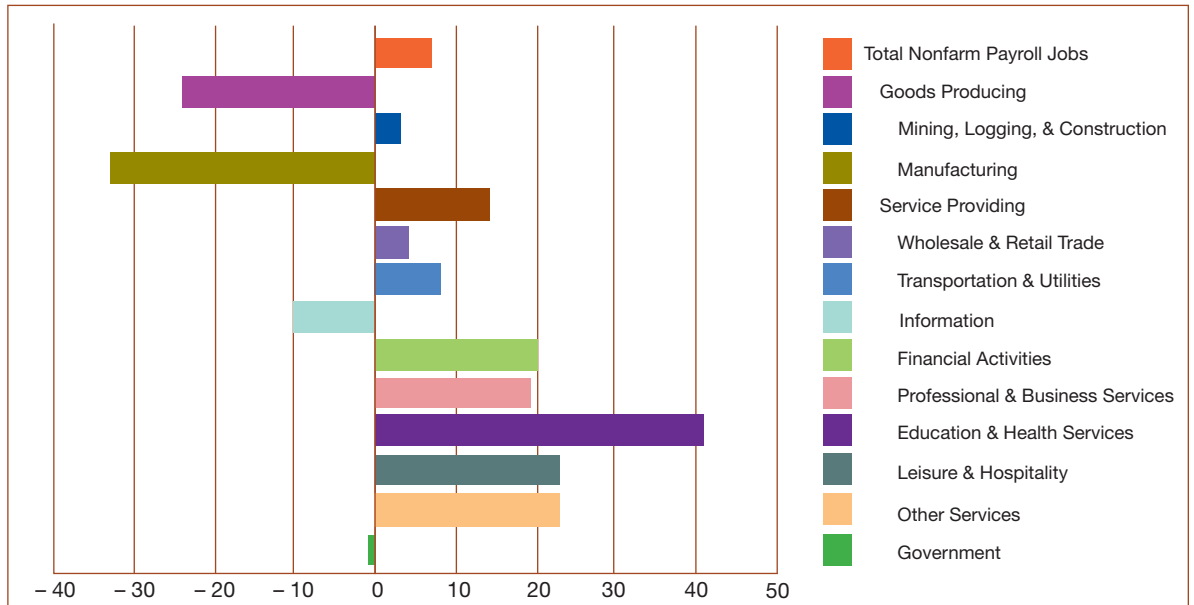
Employment growth that occurred during the past 12 months contributed to a small decrease in the unemployment rate, which averaged 8 percent during 2010, down from 8.7 percent in 2009. From 2000 to 2007, the unemployment rate averaged 4 percent. Figure 1 illustrates trends in the labor force, resident employment, and unemployment rate in the HMA from 2000 through 2010.

Employment in the HMA is expected to continue to increase by 0.5 percent during the next 12 months. By the end of the 3-year forecast period, employment is expected to increase by 2.5 percent a year, with the professional and business services sector expected to lead job growth. The education and health services and the government sectors will likely account for the bulk of the remaining forecast job growth in the HMA. Figure 2 illustrates employment sector growth in the HMA from 2000 to the current date, and Figure 3 shows current nonfarm payroll jobs by sector.

Figure 1. Trends in Labor Force, Resident Employment, and Unemployment Rate in the Knoxville HMA, 2000 to 2010

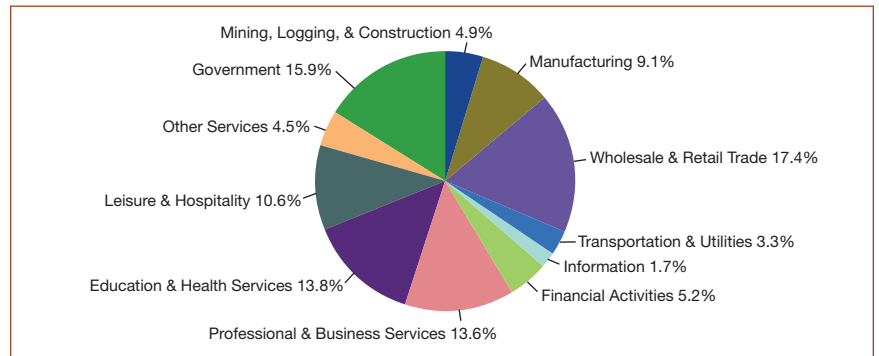


Source: U.S. Bureau of Labor Statistics

Figure 2. Sector Growth in the Knoxville HMA, Percentage Change, 2000 to Current

Note: Current is based on 12-month averages through December 2010.

Source: U.S. Bureau of Labor Statistics

Figure 3. Current Nonfarm Payroll Jobs in the Knoxville HMA, by Sector

Note: Based on 12-month averages through December 2010.

Source: U.S. Bureau of Labor Statistics

Population and Households

As of January 1, 2011, the population of the Knoxville HMA is estimated to be 711,000, reflecting an increase of 1 percent compared with the population a year earlier. Population growth averaged 1.3 percent a year from 2000 through 2004 but accelerated to 1.7 percent annually from 2005 through 2008 because of the expanding economy.

The lower rate of population growth during the past year is attributed to decreased in-migration because the economy contracted significantly during the past 18 months. During the forecast period, the population is expected to increase by 7,900, or 1.1 percent, annually and total approximately 734,700 by January 1, 2014.

Population and Households *Continued*

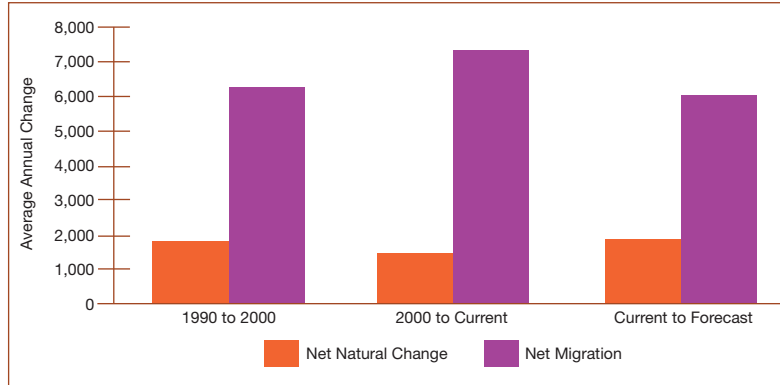
During the 1990s, the population of the HMA increased by an average of 8,125 a year, or 1.4 percent. Net in-migration during that decade accounted for slightly more than 75 percent of the population gain; the

remainder of the growth came from net natural change (resident births minus resident deaths). Since 2000, net in-migration has accounted for more than 80 percent of the population growth, or an average of 7,325 people a year; in 2010, however, net in-migration declined substantially to 5,100 because of the weak economy. During the 3-year forecast period, net in-migration in the HMA is expected to average 6,000 people a year as the economy continues to improve. See Figure 4 for the components of population change in the HMA from 1990 to the forecast date.

Largely because of the decline in population growth during the past 2 years, the rate of household growth in the HMA has been slower than during the previous decade. Since 2000, the number of households has increased by 3,325, or 1.2 percent, a year compared with an average annual increase of 4,125, or 1.8 percent, during the 1990s. Currently, the HMA has 288,800 households. Figure 5 illustrates the number of households by tenure in the HMA for 1990, 2000, and the current date.

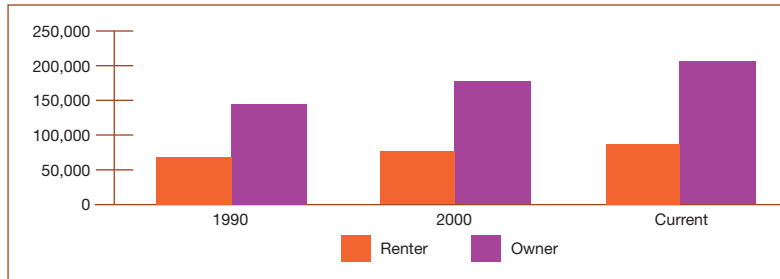
During the forecast period, the number of households is expected to increase by 2,700, or 0.9 percent, annually and total approximately 296,900 by January 1, 2014. Figure 6 shows population and household growth in the HMA from 1990 to the forecast date.

Figure 4. Components of Population Change in the Knoxville HMA, 1990 to Forecast



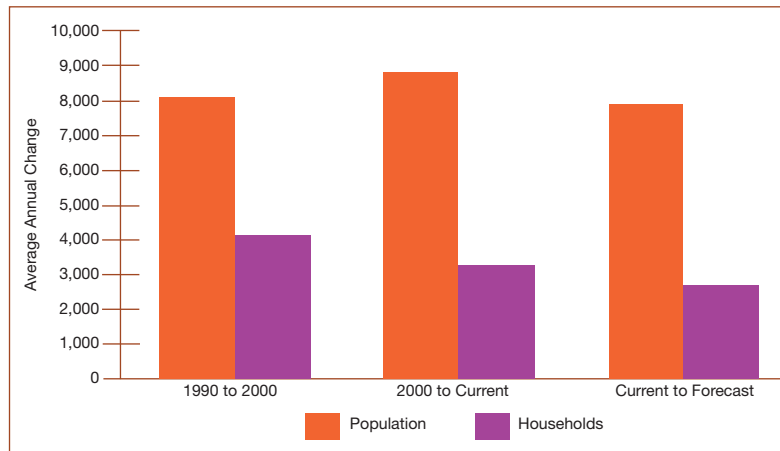
Sources: 1990 and 2000–1990 Census and 2000 Census; current and forecast—estimates by analyst

Figure 5. Number of Households by Tenure in the Knoxville HMA, 1990 to Current



Sources: 1990 and 2000–1990 Census and 2000 Census; current—estimates by analyst

Figure 6. Population and Household Growth in the Knoxville HMA, 1990 to Forecast



Sources: 1990 and 2000–1990 Census and 2000 Census; current and forecast—estimates by analyst

Housing Market Trends

Sales Market

The sales housing market in the Knoxville HMA is currently soft because of decreased demand resulting from a slower economy. The pace of home sales has declined gradually since 2005, when the annual volume peaked at 15,400 homes sold. According to the Knoxville Association of REALTORS® data, in 2010, sales of existing homes in the HMA totaled 9,125 units, a decrease of 4 percent compared with the 9,475 units sold in 2009. Although home sales were down only slightly in 2010, the decline accelerated toward the end of the year, an indication that the sales market has yet to bottom out. During the fourth quarter of 2010, sales of existing homes in the HMA totaled 1,950 units, a decrease of 22 percent compared with the 2,500 units sold during the fourth quarter of 2009. Condominium sales in the HMA totaled 1,025 units in 2010, unchanged compared with sales during the same period a year earlier.

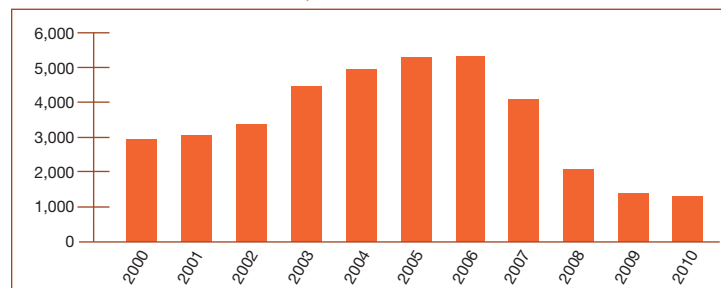
Despite the decline in sales, during 2010, the average sales price for single-family homes in the HMA increased slightly to \$171,100, down less than 0.5 percent, compared with the price recorded a year earlier. During 2010, the average single-family home sales price stabilized as distressed sales subsided. Conversely, during 2010, the

average sales price for condominiums decreased 5 percent to \$153,800, down nearly 13 percent from the peak price of \$175,900 reached at the end of 2007. According to LPS Applied Analytics, as of December 2010, 4.9 percent of loans in the HMA were classified as 90 or more days delinquent, in foreclosure, or in REO (Real Estate Owned), down from 5.5 percent in December 2009.

In response to declining sales, home builders have reduced new home construction activity. Based on preliminary data for 2010, single-family construction activity, as measured by the number of building permits issued, totaled 1,200 homes, a decrease of 4 percent compared with the number issued during the previous year. By comparison, during the peak years of 2004 through 2006, an average of 5,175 single-family homes were permitted each year in the HMA (see Figure 7). New home construction in the HMA is primarily infill and is largely located in the unincorporated areas of Knox and Loudon Counties. New home construction is also prevalent in the growing community of Maryville in Blount County, with a typical starting price of \$155,000.

During the 3-year forecast period, demand is estimated for 7,750 new market-rate homes in the HMA. A portion of this demand will be met by the 250 homes currently under construction (see Table 1). In addition, a portion of the 18,500 other vacant units may come back on the market and satisfy some of the forecast demand. Table 4 illustrates estimated demand for new market-rate sales housing in the HMA by price range. Demand is expected to

Figure 7. Single-Family Building Permits Issued in the Knoxville HMA, 2000 to 2010



Note: Includes only single-family units.

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

average 2,300 homes during 2011 and is expected to increase to 2,900 homes by the last year of the forecast period. In addition, demand is estimated for

150 mobile homes during the next 3 years. Mobile homes currently make up an estimated 8 percent of the total housing inventory in the HMA.

Table 4. Estimated Demand for New Market-Rate Sales Housing in the Knoxville HMA, January 1, 2011 to January 1, 2014

Price Range (\$)		Units of Demand	Percent of Total
From	To		
120,000	124,999	1,000	12.9
125,000	149,999	1,400	18.1
150,000	174,999	1,700	21.9
175,000	199,999	1,150	14.8
200,000	249,999	1,000	12.9
250,000	299,999	700	9.0
300,000	399,999	500	6.5
400,000	and higher	300	3.9

Notes: Excludes mobile homes. A portion of the estimated 18,500 other vacant units in the HMA will likely satisfy some of the forecast demand.

Source: Estimates by analyst

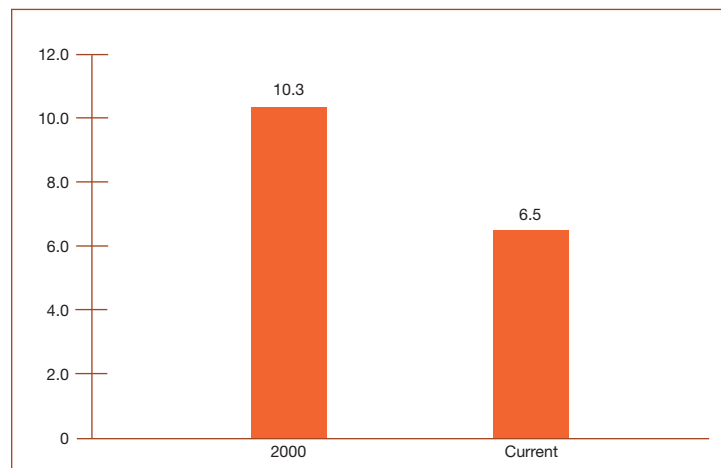
Rental Market

The rental housing market in the HMA is currently balanced, with an estimated overall rental vacancy rate of 6.5 percent, down substantially from the 10.3-percent rate recorded in 2000 (see Figure 8). According to Reis, Inc., the apartment market in Knoxville had a 6-percent vacancy rate as of the fourth quarter of 2010, down 2 percentage points from the rate recorded in the fourth quarter of 2009. Apartment rents in the area currently

average \$500 for a one-bedroom unit, \$630 for a two-bedroom unit, and \$820 for a three-bedroom unit. Effective rent in the HMA increased nearly 2 percent to \$570 in the fourth quarter of 2010 compared with the rent in the fourth quarter of 2009.

Multifamily construction, as measured by the number of multifamily units permitted, increased 43 percent to 730 units permitted during 2010 compared with 510 units permitted during 2009, based on preliminary data. During 2010, the pace of multifamily construction returned to the level of units permitted between 2005 and 2008, when employment was increasing more rapidly. Apartments account for approximately 85 percent of the multifamily construction activity in the area, up roughly 5 percentage points compared with activity during the past 2 years. As of January 1, 2011, 700 multifamily units were under construction, including the 336-unit Amberleigh Bluff apartment development in southwest Knoxville. Amberleigh Bluff, which

Figure 8. Rental Vacancy Rates in the Knoxville HMA, 2000 to Current



Sources: 2000—2000 Census; current—estimates by analyst

Housing Market Trends
Rental Market *Continued*

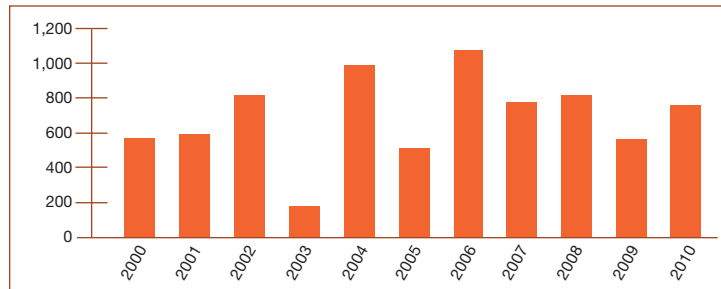
completed construction in May 2011, offers rents of \$830, \$920, and \$1,125 for one-, two-, and three-bedroom units, respectively. Figure 9 illustrates the number of multifamily building permits issued from 2000 to the current date.

Students at UT Knoxville occupy a large portion of the rental stock. According to the university, fall enrollment figures for 2010 totaled approximately 27,100 students. UT currently houses around 7,500 students in on-campus

residence halls and apartments. On-campus apartments are rented on a semester basis, with rates of \$2,350 to \$4,800 for a one-bedroom unit, equating to roughly \$630 to \$1,275 per month. An estimated 10,000 students live off campus in the private rental market. Typical off-campus apartments have rents that are in line with the average for the HMA. Apartments located near the university typically command slightly higher rents because of their proximity to downtown compared with units farther out in the HMA.

During the next 3 years, demand is estimated for 2,250 new market-rate rental units in the HMA. Demand is expected to increase from 600 units in 2011 to 950 units by 2014. The 700 apartments currently under construction will meet a portion of this demand. Table 5 illustrates estimated demand for rental housing in the HMA by rent range.

Figure 9. Multifamily Building Permits Issued in the Knoxville HMA, 2000 to 2010



*Note: Includes all multifamily units in structures with two or more units.
 Source: U.S. Census Bureau, Building Permits Survey*

Table 5. Estimated Demand for New Market-Rate Rental Housing in the Knoxville HMA, January 1, 2011 to January 1, 2014

One Bedroom		Two Bedrooms		Three or More Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
500 to 699	710	620 to 819	900	820 to 1,019	300
700 to 899	80	820 to 1,019	110	1,020 to 1,219	40
900 to 1,099	0	1,020 to 1,219	110	1,220 to 1,419	0
Total	790	Total	1,120	Total	340

Source: Estimates by analyst

Data Profile

Table DP-1. Knoxville HMA Data Profile, 1990 to Current

	1990	2000	Current	Average Annual Change (%)	
				1990 to 2000	2000 to Current
Total Resident Employment	258,161	307,744	335,100	1.8	0.9
Unemployment Rate	4.7%	3.4%	8.0%		
Nonfarm Payroll Jobs	242,800	302,900	322,800	2.2	0.6
Total Population	534,917	616,079	711,000	1.4	1.3
Total Households	211,734	253,005	288,800	1.8	1.2
Owner Households	143,206	177,605	203,000	2.2	1.3
Percent Owner	67.6%	70.2%	70.3%		
Renter Households	68,528	75,400	85,800	1.0	1.2
Percent Renter	32.4%	29.8%	29.7%		
Total Housing Units	228,128	276,142	317,400	1.9	1.3
Owner Vacancy Rate	1.8%	2.3%	2.0%		
Rental Vacancy Rate	8.4%	10.3%	6.5%		
Median Family Income	NA	\$45,500	\$58,800	NA	2.9

NA = not available.

Notes: Median family incomes are for 1989, 1999, and 2009. Employment data represent annual averages for 1990, 2000, and the 12 months through December 2010.

Sources: U.S. Census Bureau; U.S. Department of Housing and Urban Development; estimates by analyst

Data Definitions and Sources

1990: 4/1/1990—U.S. Decennial Census

2000: 4/1/2000—U.S. Decennial Census

Current date: 1/1/2011—Analyst's estimates

Forecast period: 1/1/2011–1/1/2014—Analyst's estimates

Demand: The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.

Other Vacant Units: In HUD's analysis, other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as "other" vacant by the Census Bureau.

For additional data pertaining to the housing market for this HMA, go to www.huduser.org/publications/pdf/CMARtables_KnoxvilleTN_11.pdf.

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This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

For additional reports on other market areas, please go to www.huduser.org/publications/econdev/mkt_analysis.html.