

# Housing Market Profile

Southeast/Caribbean • HUD Region IV



## Knoxville, Tennessee

The Knoxville metropolitan area, located in eastern Tennessee along the North Carolina border, consists of Anderson, Blount, Knox, Loudon, and Union Counties. The principal city of Knoxville is located in Knox County and is a regional center for education and healthcare. The University of Tennessee (UT) Knoxville, located in downtown Knoxville, has more than 27,000 students and 8,100 faculty and staff. UT Knoxville has an estimated \$600 million impact on the local economy. Leading employers include the U.S. Department of Energy and Covenant Health with 12,600 and 8,850 workers, respectively. As of July 1, 2010, the population of the metropolitan area was estimated at 705,800, an increase of 1 percent compared with the July 1, 2009 population estimate. The rate of population growth has been slower than the 1.7-percent average annual growth rate recorded from 2005 through 2008 due to decreased in-migration, a result of the slowing economy.

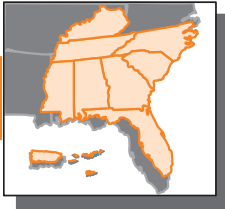
Economic conditions have weakened significantly during the past year. Nonfarm employment decreased by 11,100 jobs to an average of 319,700 jobs during the 12 months ending May 2010, a 3.4-percent decline compared with the number of jobs recorded during previous 12 months. By comparison, job declines averaged 1.8 percent during the 12 months ending May 2009. Recent job losses have primarily occurred in the goods producing sectors. Jobs in both the manufacturing and the mining, logging, and construction sectors have decreased more than 10 percent each with declines of 4,200 and 1,900 jobs, respectively. Employment declines in the construction sector have totaled 3,100 jobs during the past 2 years due to a decrease in new home construction. Despite significant losses in the manufacturing sector, SL Tennessee, LLC, announced in February they would undertake a \$35 million expansion that is expected to create 300 new jobs for the automotive part supplier by the end of 2010. Likewise, Confluence Solar, Inc., which manufactures solar panels, announced plans to construct a \$200 million facility that will create 250 jobs upon full operation in 2012. The education and health services sector added 800 jobs during the 12 months ending May 2010, a 1.8-percent increase compared with the number of jobs during the previous 12 months, due to expansions at several local hospitals. Employment in all other sectors either declined or remained flat. As a result, the average unemployment rate rose to 8.8 percent during

the 12 months ending May 2010, up from 7 percent during the previous 12 months.

Home sales market conditions in the Knoxville metropolitan area are slightly soft due to continuing job losses. The pace of home sales has declined gradually since 2005, when annual volume peaked at 15,400 homes sold. Home sales have increased recently as a result of a decrease in home prices. Approximately 10,200 new and existing single-family homes were sold during the 12 months ending June 2010, based on Knoxville Area Association of REALTORS® data, up 12 percent from the 9,100 homes sold during the 12 months ending June 2009. During the same period, the average sales price in Knoxville decreased to \$170,400, down 4 percent. New and existing condominium sales increased by 110 units to 1,100 units sold during the past year while the average sales price declined nearly 4 percent to \$159,700. Condominium sales peaked in 2006 with 2,100 units sold at an average sales price of \$164,900. According to data from Lender Processing Services, Inc., Mortgage Performance Data, as of May 2010, the percentage of mortgage loans in foreclosure, 90 days or more delinquent, or in REO (Real Estate Owned) in the Knoxville metropolitan area was 4.9 percent, an increase from the rate of 4.1 percent recorded in May 2009.

In response to the soft home sales market conditions, homebuilders have reduced new home construction activity. Based on preliminary data for the 12 months ending May 2010, single-family construction activity, as measured by the number of building permits issued, totaled 1,250 homes, a decrease of 4 percent compared with the number issued during the previous 12 months. By comparison, during the peak years of 2004 through 2006, an average of 5,175 single-family homes a year was permitted in the metropolitan area.

Rental market conditions in the Knoxville metropolitan area are currently soft. According to Reis, Inc., as of the first quarter of 2010, the apartment vacancy rate was 7.6 percent, a slight improvement from the 7.8-percent rate recorded in the first quarter of 2009. The average monthly contract rent was \$590 as of the first quarter of 2010, unchanged compared with the rent during the first quarter of 2009. Apartment rents in the area averaged \$500 for a 1-bedroom unit, \$620 for a 2-bedroom unit, and \$820 for a three-bedroom unit. Currently, concessions in the market are widespread at 5 percent of the monthly rent, unchanged during the past year. Students at UT Knoxville occupy a large portion of the local rental stock with approximately 20,000 students living off campus. Apartments



near the university have rents that range from \$475 to \$800 a month per student.

The construction of multifamily units increased by more than 80 percent to 650 units during the 12-month period ending May 2010 compared with the number constructed during the previous 12-month period, based on preliminary building permit data. During the past 2 years, multifamily construction has dropped well below the annual average of 910 units

permitted between 2006 and 2008. Apartments account for approximately 90 percent of the multifamily activity in the area; this has remained unchanged during the past 2 years. The soft rental market conditions are expected to continue through 2010 due to approximately 600 units currently under construction and the planned 336-unit Amberleigh Bluff apartments in southwest Knoxville, which builders expect to complete during the next 2 years.