



MULTIFAMILY REPORT

Knoxville: The Value Of Affordability

Fall 2020

Job Growth Above US Average

Rent Gains Positive Through Q3

Per-Unit Average Marks New High

KNOXVILLE MULTIFAMILY



Steady Demand Boosts Rent Growth

Knoxville has displayed remarkable resilience in the shadow of the pandemic. Multifamily demand remained steady, with the average rent maintaining positive performance through September. Knoxville rents ended the third quarter with an increase of 0.6% on a trailing three-month basis, to \$1,058. The occupancy rate in stabilized properties underpinned the market's resilience, rising 10 basis points to 96.0% for the 12 months ending in August.

In the wake of economic volatility, Knoxville's job market fared better than most larger, coastal metros. Unemployment dropped to 8.0% in July, with the preliminary August figure at 6.6%, less than half the 13.5% April rate. Initial unemployment claims filed across the state between mid-March and early October surpassed 870,000, but the metro's employment pool contracted by just 3.5% in the 12 months ending in July, faring better than the 6.6% U.S. rate. Forward-looking projects, under construction or in the planning stage, exude optimism and include infrastructure improvement and expansion along Interstate 275 and a \$142 million mixed-use stadium, expected to be a valuable addition to East Knoxville.

Supply and transaction activity were limited—just 172 units were delivered through September, an additional 1,522 apartments were underway, and two sales totaling a combined \$65 million—with a per-unit price of \$145,818—were completed.

Recent Knoxville Transactions

Quarry Trail



City: Knoxville, Tenn.
Buyer: Global Securitization Services
Purchase Price: \$45 MM
Price per Unit: \$176,726

Market Analysis | Fall 2020

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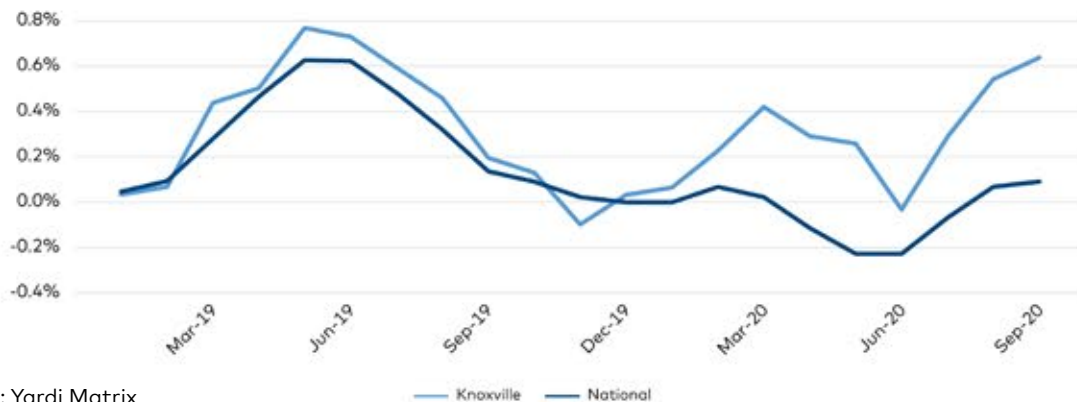
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RENT TRENDS

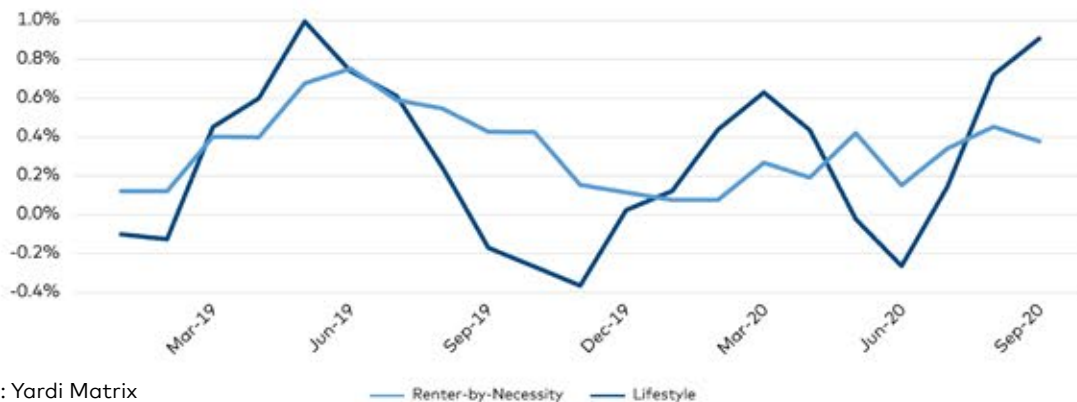
- ▶ Knoxville's average rent rose 0.6% to \$1,058 on a trailing three-month (T3) basis through September, 50 basis points above the U.S. rate. The metro's affordability continued to boost demand, in turn helping rents remain positive despite the effects of the current downturn. On a month-over-month basis, Knoxville rates were down only in April (-0.2%), staying flat or advancing for the rest of the second and third quarters.
- ▶ Bucking nationwide trends, demand for Lifestyle assets led rent expansion, the average rate rising 0.9% to \$1,420 on a T3 basis through September. Meanwhile, working-class Renter-by-Necessity rates advanced 0.4% to \$889.
- ▶ Nearly half of the metro's submarkets posted average rates below the \$1,000 mark as of September, with Oakridge (average rate up 4.0% to \$808 in the 12 months ending in September) and Maryville (up 0.6% to \$832) recording some of the most affordable prices. At the other end of the spectrum, the highest rents were in Seymour (\$1,767) and Knoxville-West (\$1,362). The latter was also one of the best performers for year-over-year growth, with the average up 11.5%. Only one submarket contracted—Farragut (-2.3% to \$1,138).
- ▶ With the student community being a significant driver of the local rental market, some short-term volatility could arise as the University of Tennessee, Knoxville announced the suspension of in-person classes after the Thanksgiving break as part of a shorter academic semester, to be followed by online final exams.

Knoxville vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Knoxville Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Knoxville's unemployment rate dropped to 8.0% in July from the 13.5% high registered in April, and preliminary data for August pointed to 6.6%. The number of unemployment claims filed across the state between mid-March and early October surpassed 870,000.
- ▶ After trailing the national growth rate for most of the cycle, Knoxville proved relatively resilient from the onset of the pandemic. While the employment pool shrank 3.5% year-over-year through July, it fared better than the -6.6% U.S. rate. Moreover, two sectors marked job gains: Education and health services—the metro's second-largest sector—added 1,900 jobs, while mining, logging and construction gained 200 positions. Professional and business services, which accounts for 16.8% of the workforce, shrunk by just 0.5%. Forward-looking plans include infrastructure improvement and expansion along Interstate 275, with anticipated completion for 2021, and a \$142 million mixed-use stadium complex, which, if approved, will employ more than 3,000 people.
- ▶ In October, Tennessee Gov. Bill Lee announced \$50 million in federal support for small businesses under the Supplemental Employer Recovery Grant program, to be distributed on a first-come, first-served basis.

Knoxville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
65	Education and Health Services	57	14.7%
15	Mining, Logging and Construction	19	4.9%
50	Information	6	1.5%
60	Professional and Business Services	65	16.8%
80	Other Services	15	3.9%
55	Financial Activities	19	4.9%
90	Government	53	13.7%
30	Manufacturing	39	10.1%
40	Trade, Transportation and Utilities	75	19.3%
70	Leisure and Hospitality	41	10.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Knoxville gained 9,057 residents in 2019. That marked a 1.0% expansion, more than three times the 0.3% U.S. rate.
- ▶ Boosted mostly by domestic migration, the metro's population grew by 2.9% between 2016 and 2019.

Knoxville vs. National Population

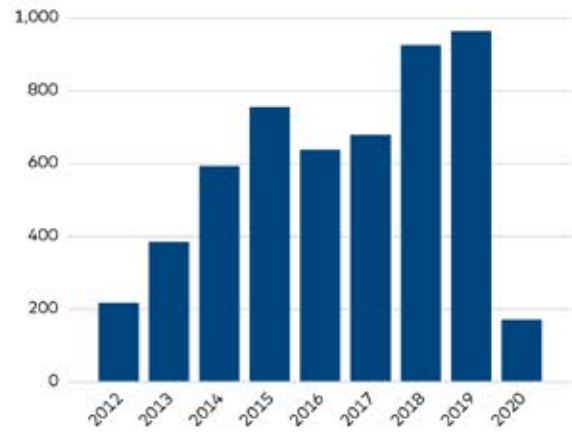
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Knoxville Metro	867,386	875,797	883,309	892,366

Sources: U.S. Census, Moody's Analytics

SUPPLY

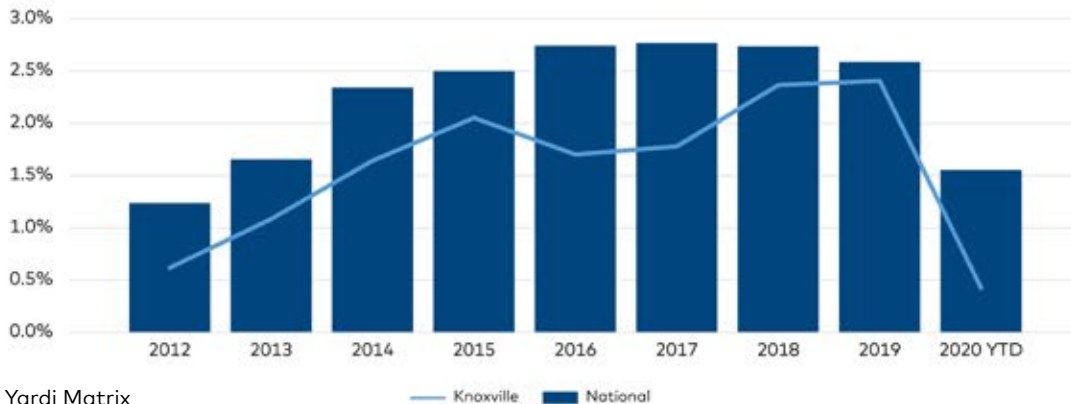
- ▶ Following the 965 units delivered in 2019, development was tepid in the first three quarters of 2020, with just 172 units coming online through September. This represented just 0.4% of total stock, well below the 1.6% U.S. rate.
- ▶ As of September, the development pipeline encompassed 1,522 units underway in nine properties, seven of which cater to the up-scale segment, while the other two are fully affordable projects. About one-third of projects under construction in the metro have completion dates set for 2020.
- ▶ Occupancy in stabilized properties inched up 10 basis points in the 12 months ending in August to 96.0%, with the increase caused by demand for RBN assets. The rate for the working-class segment rose 30 basis points to 96.2%, while for Lifestyle it decreased 50 basis points to 95.4%.
- ▶ Delays have impacted and are expected to further affect both construction starts and the progression of construction for several reasons, including permitting delays, economic uncertainty, availability of construction financing, and enhanced health and safety measures.
- ▶ Developers were active across five submarkets as of September. Hardin Valley had 564 units under construction, followed by Northshore (366 units) and South Knoxville (276 units). The only property delivered this year through September was Southside Flats, a fully affordable community owned by Elmington Capital Group, located in an Opportunity Zone in South Knoxville.

Knoxville Completions (as of September 2020)



Source: Yardi Matrix

Knoxville vs. National Completions as a Percentage of Total Stock (as of September 2020)

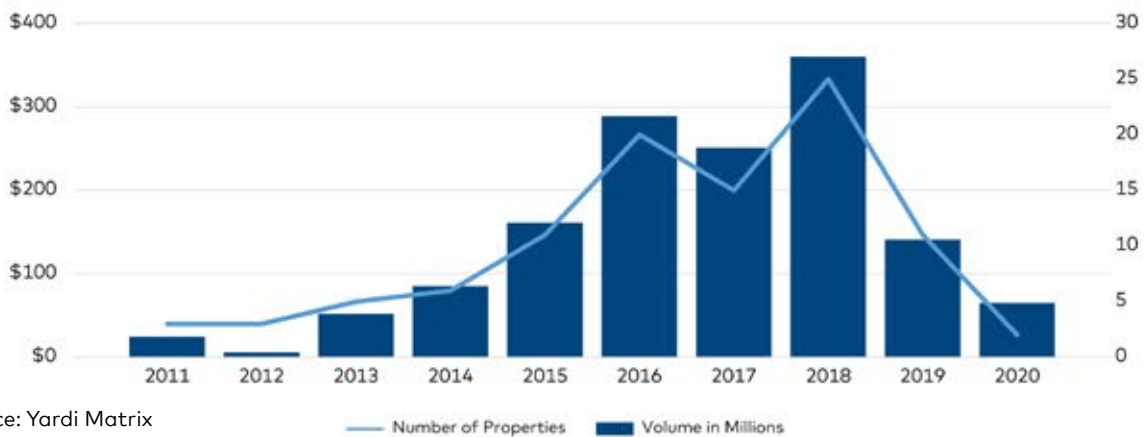


Source: Yardi Matrix

TRANSACTIONS

- ▶ Two assets of more than 50 units traded in Knoxville in 2020 through September, for a total of \$65 million. The volume is 13.4% below last year's figure for the same period, when seven assets changed hands. However, last year, transaction activity picked up steam in the final quarter, for a 2019 total of \$141 million.
- ▶ Despite the limited number of transactions, the price per unit rose by a solid 36.3% to \$145,818, boosted by the sale of a 252-unit student housing community acquired by Global Securitization Services from QR Capital for nearly \$45 million, or \$176,726 per unit. Even so, per-unit prices continued to trail the U.S. average, which clocked in at \$163,150 for the first nine months of 2020.
- ▶ The other property that traded was Manor View in the Middlebrook submarket, acquired by a private investor in June from Chartwell Holdings for nearly \$21 million, or \$105,670 per unit.

Knoxville Sales Volume and Number of Properties Sold (as of September 2020)



Source: Yardi Matrix

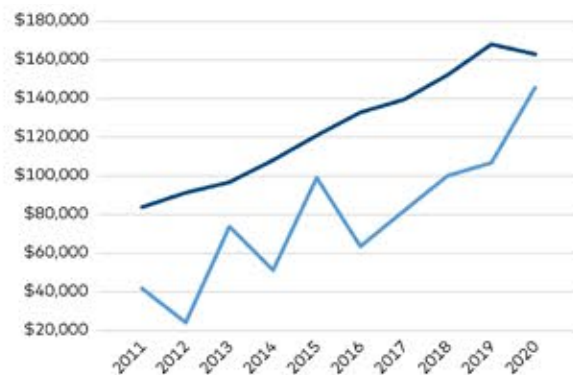
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Seymour	45
Hardin Valley	42
Middlebrook	31
Knoxville-West	13

Source: Yardi Matrix

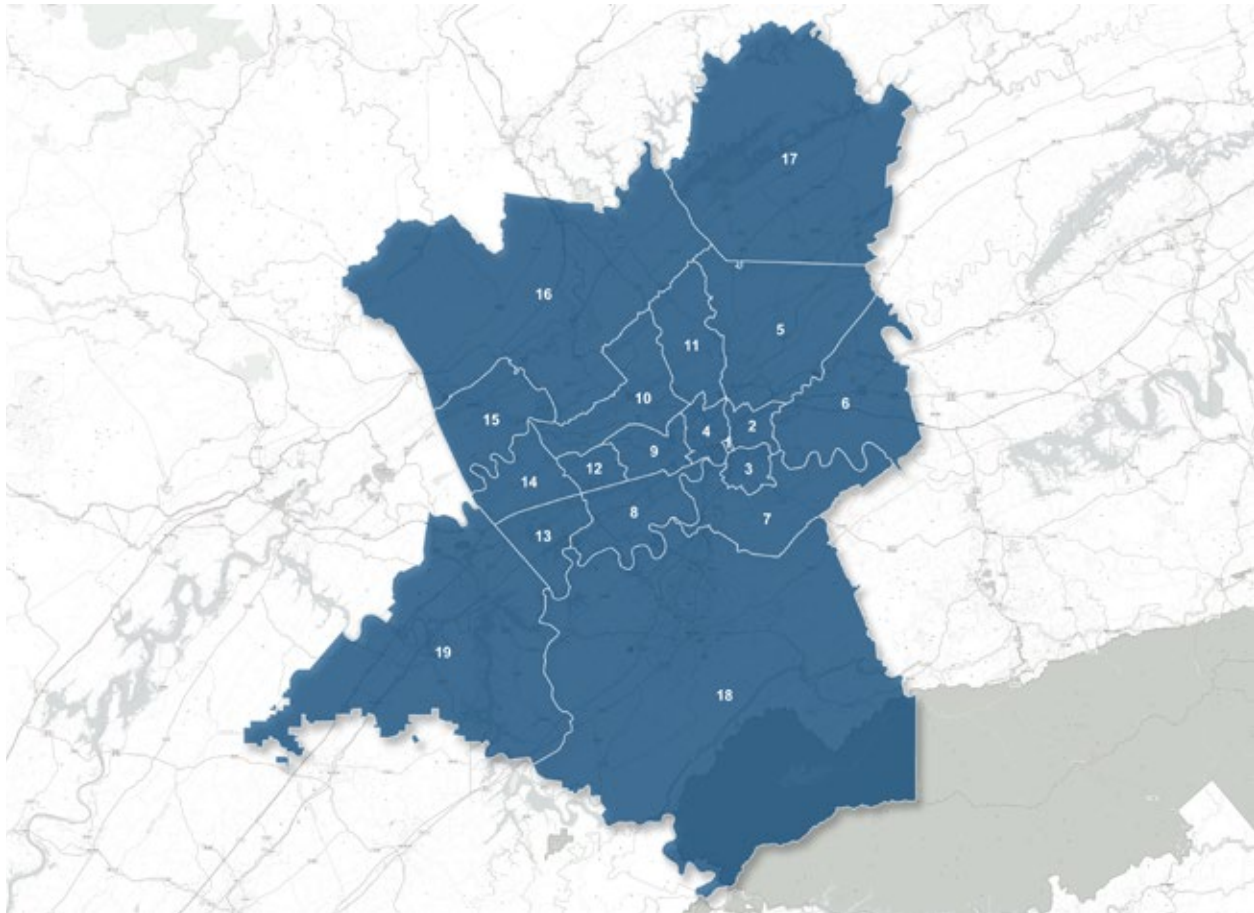
¹ From October 2019 to September 2020

Knoxville vs. National Sales Price per Unit



Source: Yardi Matrix

KNOXVILLE SUBMARKETS



Area No.	Submarket
1	Knoxville-Downtown
2	Knoxville-East
3	South Knoxville
4	Knoxville-West
5	Corryton
6	Strawberry Plains
7	Seymour
8	Northshore
9	Middlebrook
10	Karns

Area No.	Submarket
11	Powell
12	Cedar Bluff
13	Farragut
14	Hardin Valley
15	Oakridge
16	Anderson
17	Union
18	Maryville
19	Loudon

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also September span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which September barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, September extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

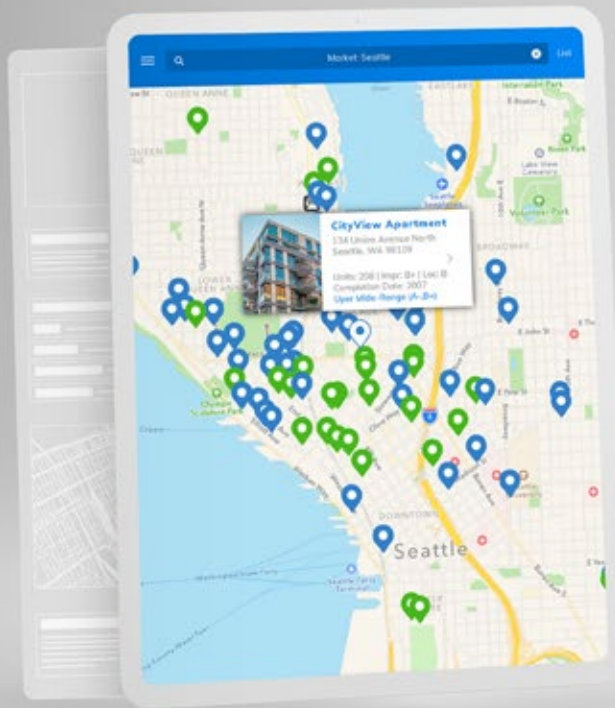
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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