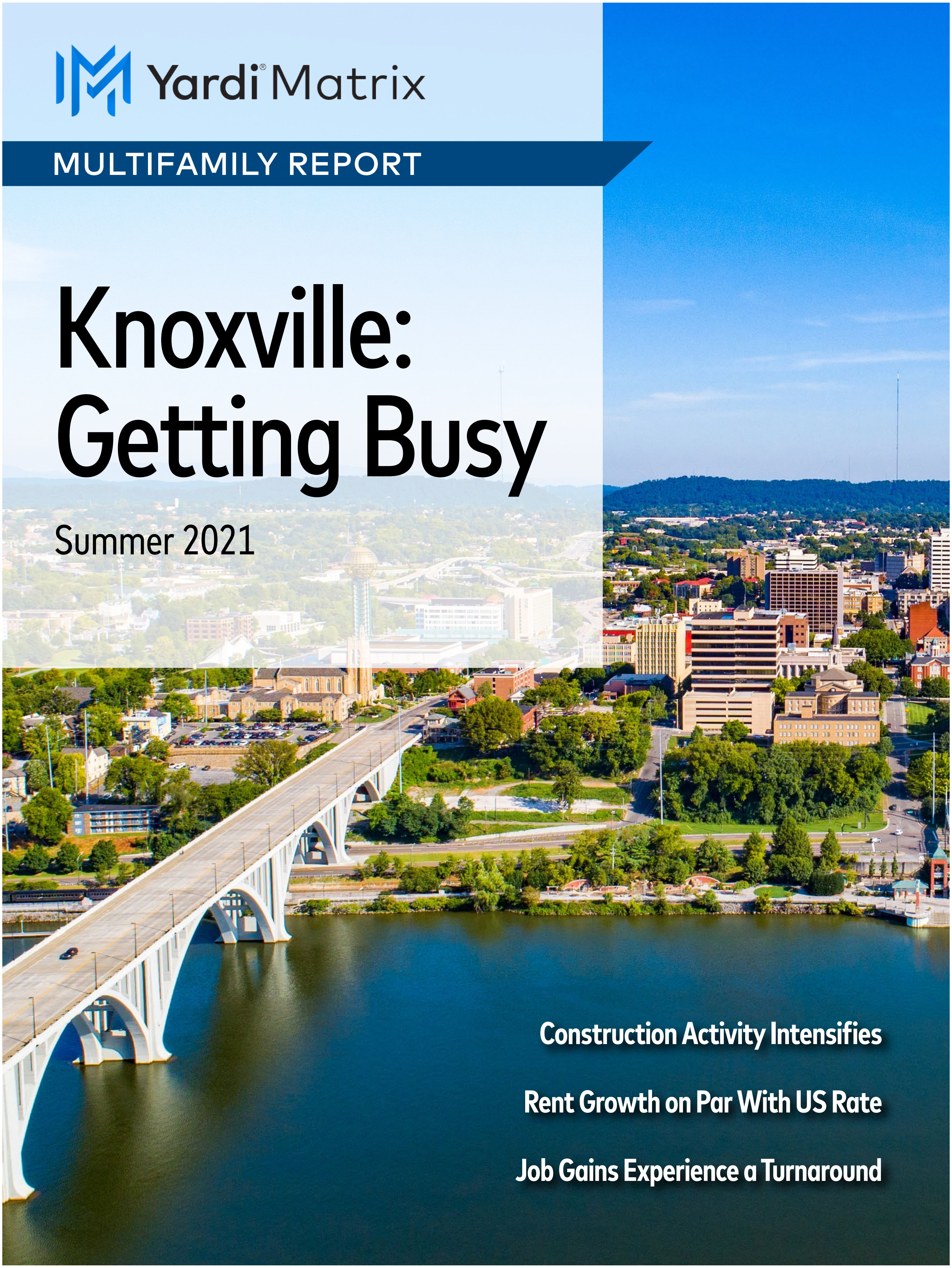
Yardi Matrix

MULTIFAMILY REPORT

Knoxville: Getting Busy

Summer 2021



Construction Activity Intensifies

Rent Growth on Par With US Rate

Job Gains Experience a Turnaround

KNOXVILLE MULTIFAMILY

Yardi Matrix

Steady Demand Boosts Occupancy

The pandemic brought a strong shift toward many secondary and tertiary markets, and Knoxville was among them. More than a year into the health crisis, the Knoxville rental market is tight, with rents rising 1.6%, to $1,176, on a trailing three-month basis through July. Meanwhile, the occupancy rate in stabilized assets climbed 130 basis points in the 12 months ending in June, to 97.7%.

Unemployment clocked in at 4.8% in June, according to preliminary Bureau of Labor Statistics data, faring better than the 5.9% U.S. average. Overall, Knoxville added 22,700 positions during the 12 months ending in May, with construction being the only sector that contracted, down by 1,600 positions. Professional and business services and trade, transportation and utilities—the metro's largest sectors—were also among the best performing, adding 9,400 positions combined. Both are poised for more growth, as several company expansions are underway and airline travel is rebounding at McGhee Tyson Airport.

Construction picked up speed, with developers bringing 775 units online in the first seven months of 2021. In addition, another 1,672 units were under construction as of July. Meanwhile, transaction activity softened, totaling just $66 million in multifamily sales, slightly above the volume recorded during the same period last year.

Recent Knoxville Transactions

Greentree Village

City: Knoxville, Tenn.
Buyer: Magma Equities
Purchase Price: $15 MM
Price per Unit: $105,650

Bouldercrest

City: Knoxville, Tenn.
Buyer: M1 Capital
Purchase Price: $14 MM
Price per Unit: $77,778

Market Analysis | Summer 2021

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Anca Gagiuc
Senior Associate Editor

On the cover: Photo by Kruck20/iStockphoto.com

RENT TRENDS

- Metro Knoxville rents rose 1.6%, to $1,176 on a trailing three-month (T3) basis through July, on par with the national average, which reached $1,510. On a year-over-year basis, rates advanced 11.0%, leading the already high 8.3% U.S. figure.

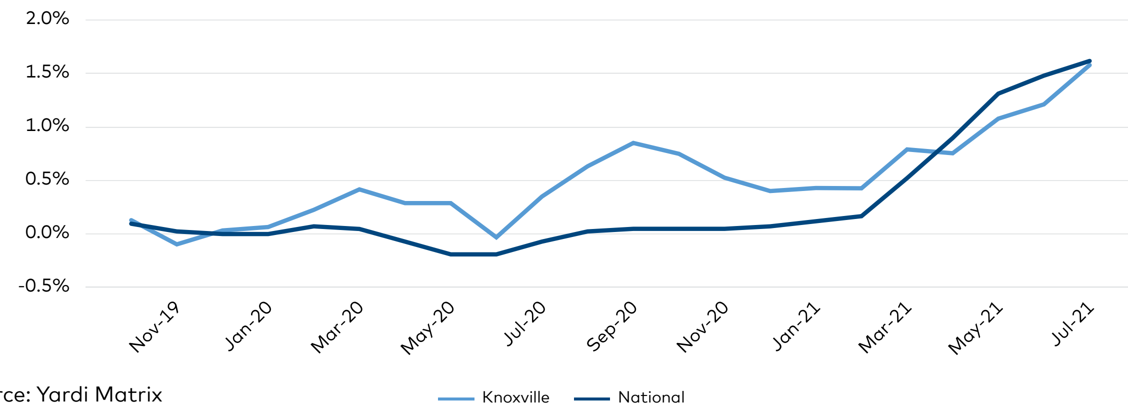
- Knoxville's rental market benefited from demographic shifts brought by the health crisis, remaining a more affordable option over larger metros, including nearby Nashville and Atlanta.

- The working-class Renter-by-Necessity segment led growth on a T3 basis through July, up 1.7%, to $980. Lifestyle rents followed closely, improving by 1.4%, to $1,574, during the period. On a year-over-year basis, the dynamic showed a slight shift: Lifestyle rents increased 11.4%, while the RBN average rose 10.7%.

- Knoxville–West and South Knoxville remained the most sought-after submarkets, with average rents at a respective $1,440 and $1,404, following year-over-year increases of 6.1% and 15.7%. Meanwhile, Cedar Bluff (18.7% to $1,112) and Northshore (18.2% to $1,297) recorded the sharpest hikes.

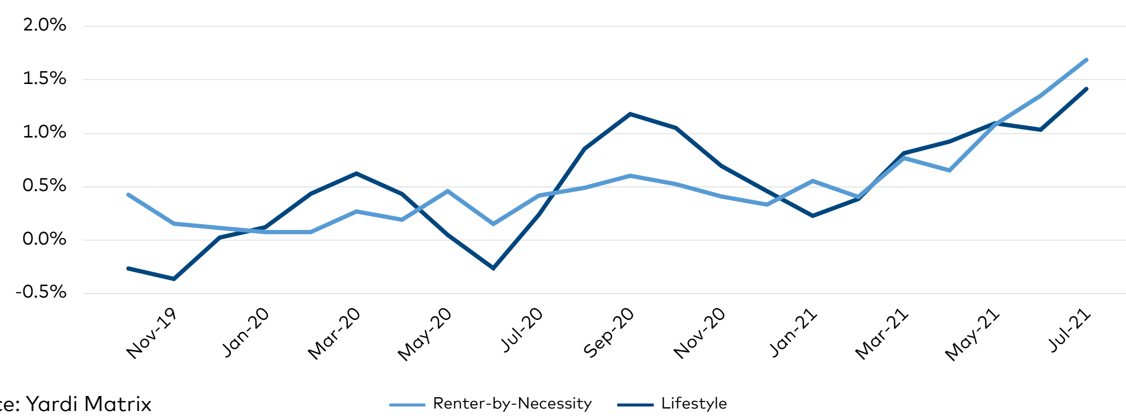
- Of the 17 submarkets tracked by Yardi Matrix, only four posted average rents below the $1,000 mark, down from seven in July 2020. Oakridge was among the most-affordable areas, with the average clocking in at $844, following a 7.4% year-over-year increase.

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 receded to 4.8% in June from 3.9% in May, but remained ahead of the 5.9% U.S. average.

- Employment growth left negative territory, marking a 0.6% increase in the 12 months ending in May, leading the -1.9% U.S. rate. Mining, logging and construction was the only sector to lose positions, down by 8.6% (1,600 jobs). Overall, Knoxville added 22,700 positions over 12 months, led by leisure and hospitality, which expanded by 17.8% (6,100 jobs).

- Professional and business services added 4,800 jobs and is poised for more new positions, due to several company expansions. Among them, IT and business consulting company CGI announced a $27 million delivery center set to create 300 jobs over the next five years. Pilot Co. had 120 openings for positions ranging from IT to sales.

- Trade, transportation and utilities added 4,600 jobs, as airline travel showed signs of recovery. McGhee Tyson Airport reported 172,000 passengers in May, a 440% increase year-over-year, but still nearly 26% below the rate registered in May 2019. Amazon intends to expand in the metro and announced plans to create hundreds of jobs at its new delivery station at the site of the former Center Mall.

Knoxville Employment Share by Sector

Code	Employment Sector	Current Employment (000)	Current Employment % Share
70	Leisure and Hospitality	40	10.0%
60	Professional and Business Services	67	16.7%
40	Trade, Transportation and Utilities	79	19.7%
30	Manufacturing	43	10.7%
80	Other Services	17	4.2%
65	Education and Health Services	54	13.5%
90	Government	58	14.5%
50	Information	6	1.5%
55	Financial Activities	20	5.0%
15	Mining, Logging and Construction	17	4.2%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Knoxville added 9,323 residents in 2020, up 1.0% and well above the 0.4% national rate.

- The metro's low cost of living, lack of state income tax and proximity to Nashville are attractive traits for residents looking to relocate.

Knoxville vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Knoxville Metro	875,797	883,309	892,366	901,689

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

SUPPLY

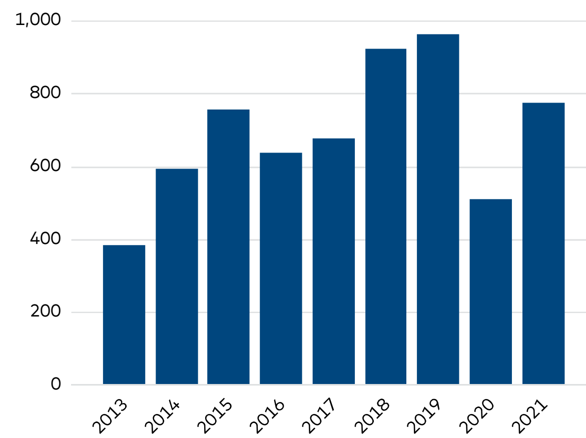
- Development intensified in Knoxville as developers brought 775 units online in 2021 through July—the equivalent of 1.9% of stock and nearly double the U.S. average. Deliveries have already surpassed last year's volume, when the inventory grew by 511 units. Four properties came online last year—a 102-unit fully affordable community and three Lifestyle properties totaling 409 units.

- The construction pipeline had 1,672 units underway as of July, and, similar to recent deliveries, comprised mainly Lifestyle apartments (1,240), as well as 160 units in two fully affordable projects and 270 units in RBN properties. Another 624 units are slated for completion by year-end, with an additional 2,600 units in the planning and permitting stages.

- The occupancy rate in stabilized properties reveals a tight rental market with a stronger demand for Lifestyle units: The overall rate rose 130 basis points in the 12 months ending in June—to 97.7%—led by occupancy in the upscale segment (up 150 basis points to 97.8%). RBN occupancy increased 120 basis points to 97.6% during the period.

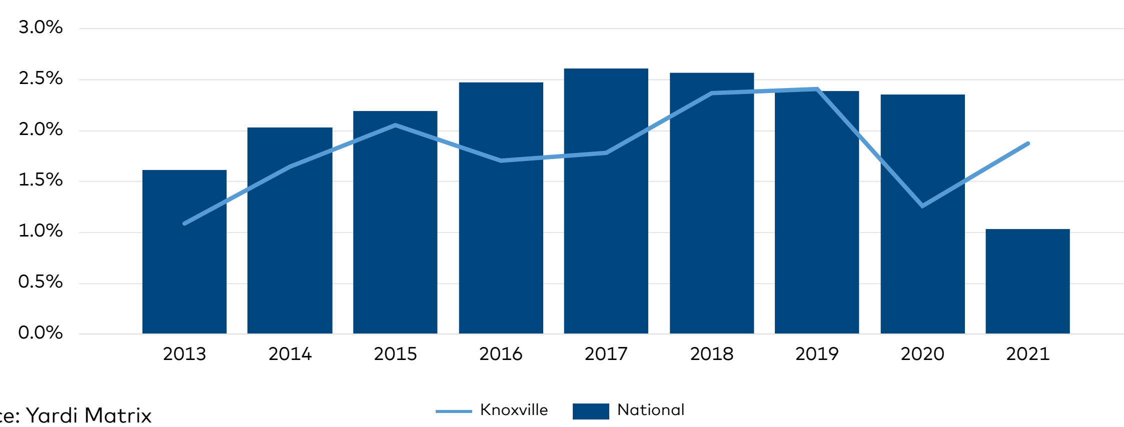
- The largest project delivered in 2021 through July was Overlook at Farragut, a 267-unit Lifestyle property in Hardin Valley. The asset was built by a private developer with aid from a $24.9 million construction loan funded by State Bank & Trust Co.

Knoxville Completions (as of July 2021)



Source: Yardi Matrix

Knoxville vs. National Completions as a Percentage of Total Stock (as of July 2021)



Source: Yardi Matrix

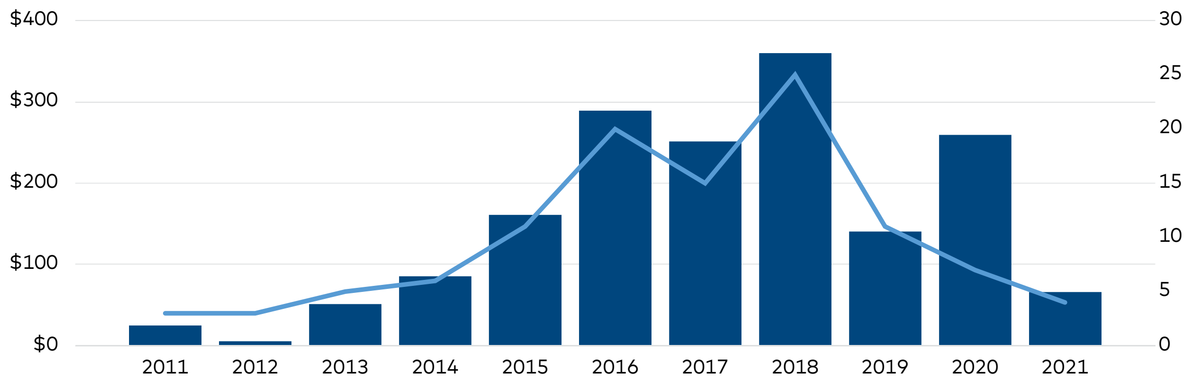
TRANSACTIONS

- Transaction volume in Knoxville totaled $66 million in multifamily assets of more than 50 units this year through July, on par with the same period of 2020. Yet, due to the sales composition—with three of the four assets that traded this year being in the Renter-by-Necessity segment—the price per unit fell a substantial 32.9%, to $97,892, well below the $174,922 U.S. average.

- Investors remained drawn by west Knoxville in the 12 months ending in July, with sales activity most intense in Northshore ($158 million) and Middlebrook ($90 million).

- The largest deal of 2021 through July was Covenant Capital Group's acquisition of a 350-unit RBN asset in Middlebrook. The company paid $36.8 million, or $105,000 per unit, to Elmington Capital Group for Addison at Sutherland, a 1980-built garden-style community which last traded in 2015.

Knoxville Sales Volume and Number of Properties Sold (as of July 2021)



Source: Yardi Matrix

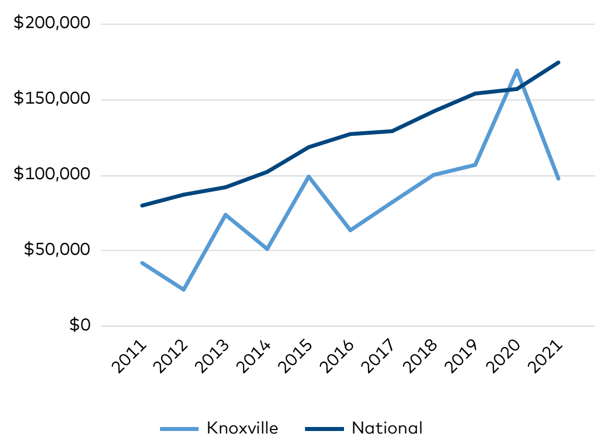
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Northshore	158
Middlebrook	90
Knoxville–West	14

Source: Yardi Matrix

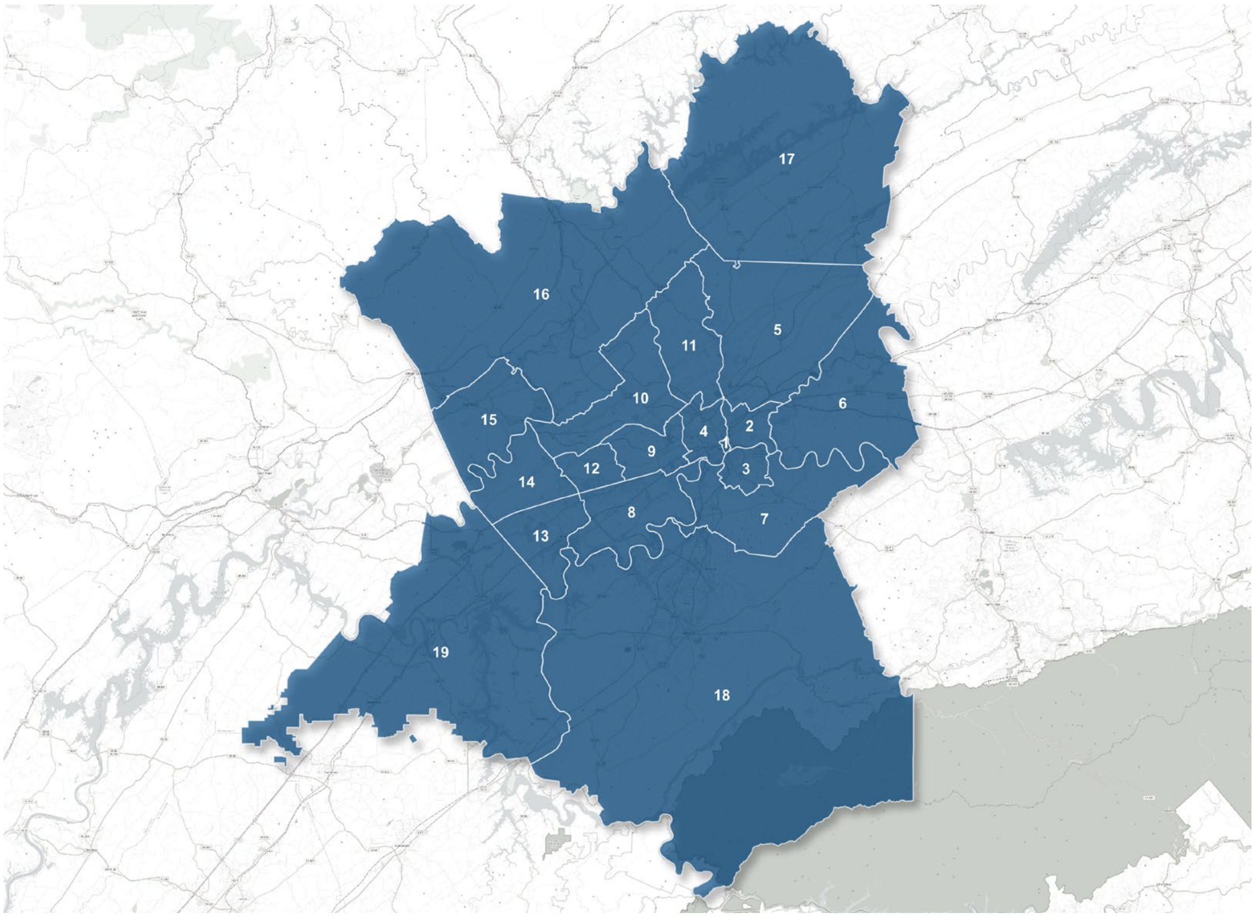
[1] From August 2020 to July 2021

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 December 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 December 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, December 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.