



MULTIFAMILY REPORT

Knoxville On Right Track

April 2022

Job Market Outperforms State, Nation

Investment Enjoys Solid Spell

Rent Upticks Continue

KNOXVILLE MULTIFAMILY



Rental Market Propped By Solid Economy

Knoxville's multifamily market is not breaking any records, but fundamentals are solid across the board. Rent growth stood at 1.1% on a trailing three-month basis as of February, nearly double the U.S. rate, at 0.6%. The average occupancy rate in stabilized assets was among the strongest levels in the nation, at 98.4% as of January, 230 basis points higher than the U.S. figure. With development likely to stay around the same level it has been over the second half of the past decade, further growth is in the cards for Knoxville's multifamily market.

The metro's employment market navigated pandemic-induced headwinds better than both the state and the nation, ending the year with unemployment at 2.9%. In 2021, the market added 12,200 positions for a 3.7% uptick. Financial activities and construction were the only sectors to record contractions, having lost a combined 1,100 jobs. With a large swath of downtown projects slated to come online in 2022, the downtick in construction jobs is understandable. However, with the recent approval of a new multiuse stadium in Knoxville, that sector may bounce back.

Investment in Knoxville's rental market started off the year with \$53 million, following its second-best annual volume of the decade. Developers had 1,454 units under construction in the metro, with activity poised to continue at a steady rate.

Market Analysis | April 2022

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Recent Knoxville Transactions

Forest Ridge/Autumnwood



City: Knoxville, Tenn.
Buyer: Starwood Capital Group
Purchase Price: \$133 MM
Price per Unit: \$219,977

Overlook at Farragut



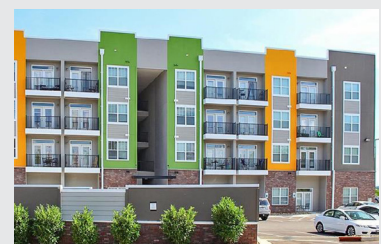
City: Knoxville, Tenn.
Buyer: Valor Residential Group
Purchase Price: \$62 MM
Price per Unit: \$231,011

Briarcliff at West Hills



City: Knoxville, Tenn.
Buyer: Cider Moon Investment Group
Purchase Price: \$48 MM
Price per Unit: \$126,658

811 East Downtown

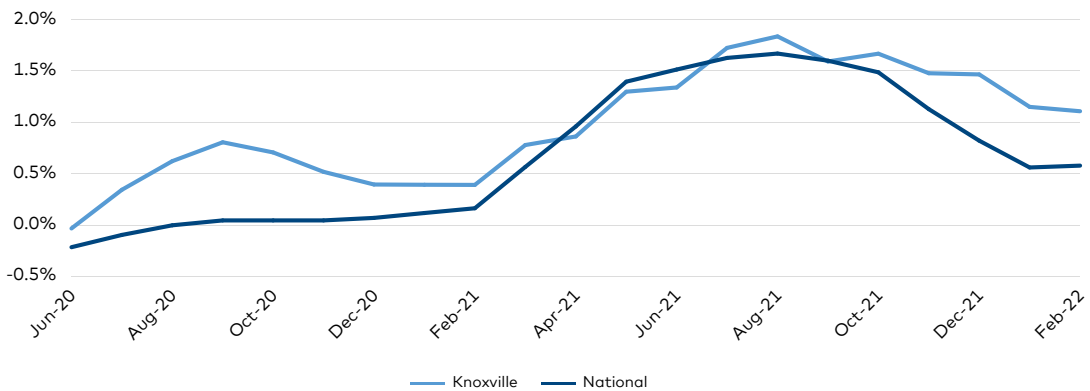


City: Knoxville, Tenn.
Buyer: Southwood Realty
Purchase Price: \$33 MM
Price per Unit: \$190,751

RENT TRENDS

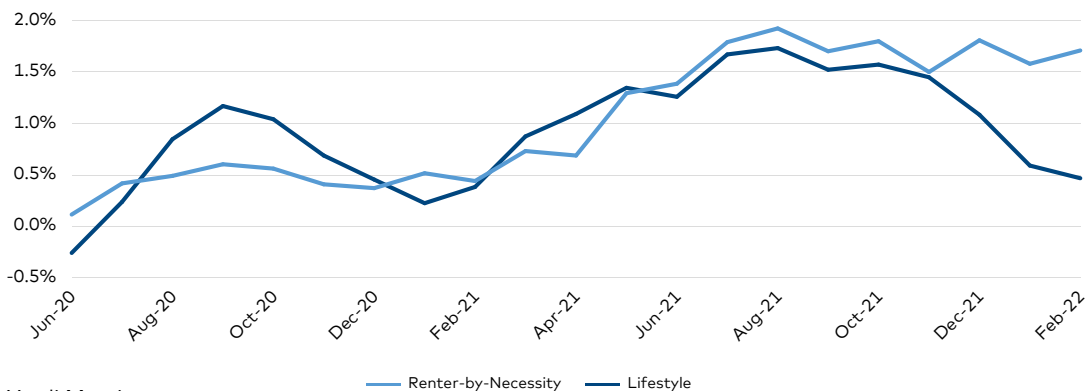
- ▶ Knoxville rents continued to grow at a strong rate, at 1.1% on a trailing three-month (T3) basis as of February, 50 basis points above the national figure. The average overall asking rent reached \$1,320, still well below the U.S. average, which stood at \$1,628. That placed the metro in the middle in terms of affordability in the state of Tennessee, trailing Nashville's average rent (at \$1,558), but above Memphis (\$1,087) and Chattanooga (\$1,199).
- ▶ Although supply constraints have driven rents in the Lifestyle segment to an average of \$1,727, growth in the working-class Renter-by-Necessity quality segment was the main purveyor of rent improvement in Knoxville, up 1.1% on a T3 basis, to \$1,108.
- ▶ While development has not lagged national trends too much since 2018, with some 3,800 units coming online during that time, Knoxville's average occupancy rate in stabilized properties has risen significantly, reaching 98.4% as of January, 230 basis points higher than the U.S. rate.
- ▶ Only two of Knoxville's 17 submarkets recorded below-double-digit rate growth on a year-over-year basis. Meanwhile, Cedar Bluff (up 27.5% year-over-year), Knoxville–Downtown (up 25.6%) and Northshore (22.9%) led the way for average asking rent increases.

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

- ▶ As has been the case with many Sun Belt metros that have seen strong in-migration, Knoxville's unemployment rate tightened, at 2.9% as of December, according to data from the Bureau of Labor Statistics. The metro also fared better than the overall state of Tennessee, which saw unemployment end the year at 3.6%.
- ▶ Knoxville added 12,200 jobs in 2021, a 3.7% increase. The figure trails the 4.4% national rate, but even Knoxville's sharpest drops in employment during the pandemic were less than half the national averages in 2020 and 2021. All but two sectors added positions last year, as dips in construction (-900) and financial services (-200) accounted for the only contractions.
- ▶ Knoxville's local economy saw an uptick in capital coming into the city in 2021 compared to 2020. Local authorities reported a \$63 million increase in private investment, to \$760.3 million.
- ▶ With approvals in place for Knoxville's new multipurpose stadium, the local economy will see another 1,500 jobs become available, as the Tennessee Smokies Baseball Team's new home is being developed. An influx of residential and commercial projects is scheduled throughout 2022 in downtown Knoxville, with the city's core seeing its population grow 300% over the past two decades.

Knoxville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	42	10.1%
40	Trade, Transportation and Utilities	84	20.3%
60	Professional and Business Services	70	16.9%
30	Manufacturing	44	10.6%
90	Government	60	14.5%
80	Other Services	17	4.1%
65	Education and Health Services	55	13.3%
50	Information	6	1.4%
55	Financial Activities	19	4.6%
15	Mining, Logging and Construction	17	4.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Demographic growth in Knoxville hit 1.0% in 2020, more than double the U.S. rate.
- ▶ As was the case with most Sun Belt markets, Knoxville's population increased steadily over the past few years, crossing the 900,000-mark in the process.

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

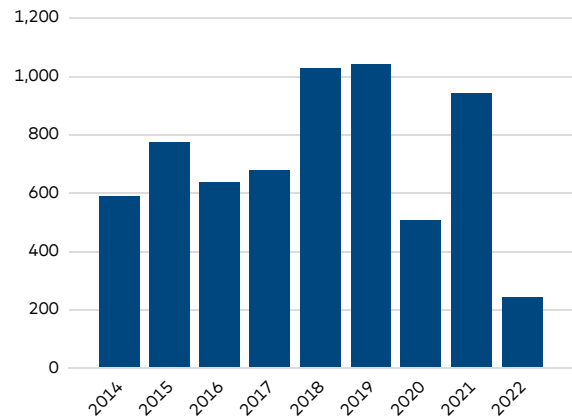
SUPPLY

- ▶ Development activity in Knoxville continued at a solid rate, as 1,454 units were under construction as of February. Developers had another 3,000 units in the planning and permitting stages across the metro, Yardi Matrix data shows.
- ▶ The year got off to a strong start for completions, with 246 units coming online during the first two months of 2022, roughly half of 2020's end-of-year total. The market is coming off one of its better years for inventory expansion, with 2021 deliveries just under the 1,000-unit mark. Rental deliveries in Knoxville have crossed that threshold only twice during the previous decade.
- ▶ The average overall occupancy rate in stabilized properties in Knoxville was 98.3% as of January. That's an 80-basis-point year-over-year increase, with Sun Belt metros enjoying a strong spell for rental demand, backed by solid in-migration and economic development.
- ▶ Occupancy in the Lifestyle segment was significantly higher, at 98.8%, with inventory accounting for just over a quarter of the market's rental stock. Occupancy in Renter-by-

Necessity assets was 60 basis points lower, but still significantly above the national average, which stood at 96.1%.

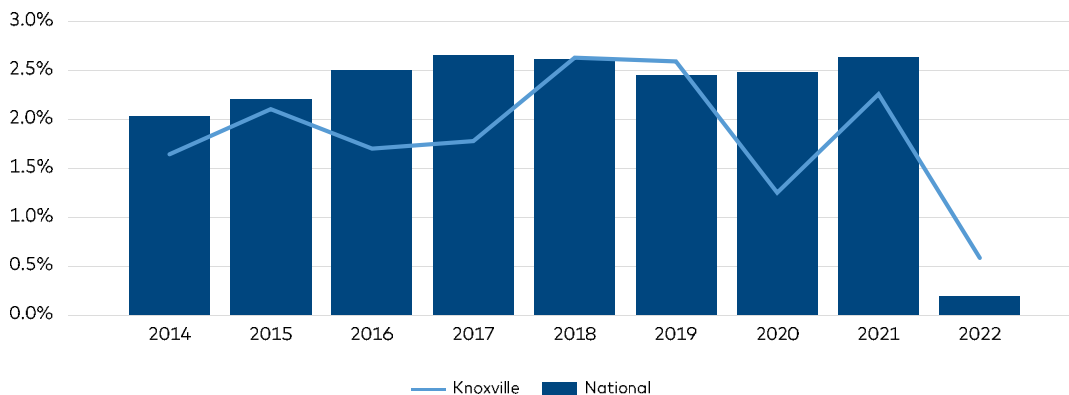
- ▶ Three Knoxville submarkets had 200-plus units underway as of February: Hardin Valley (297 units), Farragut (228 units) and Oakridge (226 units).

Knoxville Completions (as of February 2022)



Source: Yardi Matrix

Knoxville vs. National Completions as a Percentage of Total Stock (as of February 2022)



Source: Yardi Matrix

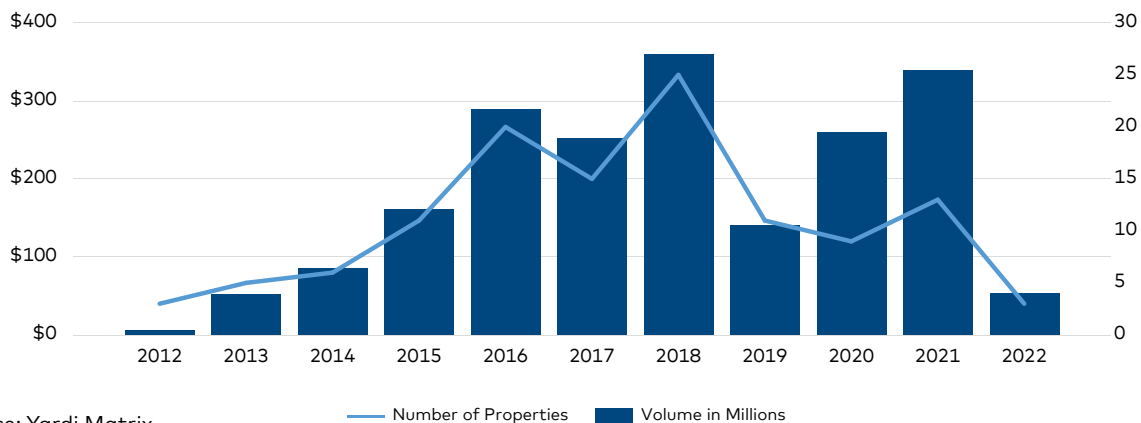
TRANSACTIONS

- ▶ Multifamily investment in Knoxville had already reached \$53 million as of February, highlighting a continued solid spell for sales in the metro. In 2021, sales reached \$340 million, marking the second-best year of the past decade.
- ▶ Per-unit prices took a slight dip in 2021, down some 5% from the decade-high mark of \$169,514 recorded in Knoxville in 2020. However, with roughly two-thirds of sales in the market involving RBN assets in the 14 months since

the beginning of 2021, a price decrease is understandable.

- ▶ In the 12 months ending in February, investment activity was concentrated in Karns (\$133 million), Hardin Valley (\$62 million), Northshore (\$48 million), Middlebrook (\$46 million) and Knoxville–East (\$44 million). During the interval, Starwood Capital Group was the most active buyer in the Knoxville market, acquiring three communities totaling 1,188 units.

Knoxville Sales Volume and Number of Properties Sold (as of February 2022)



Source: Yardi Matrix

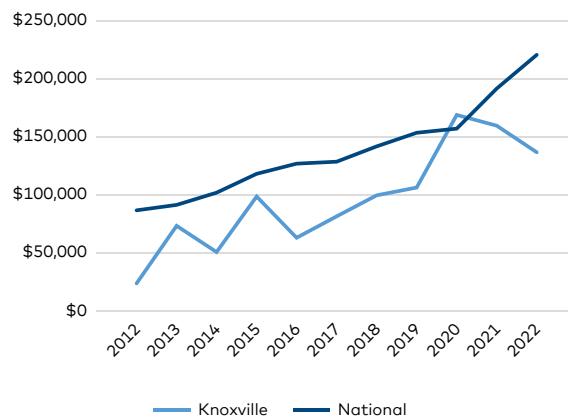
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Karns	133
Hardin Valley	62
Northshore	48
Middlebrook	46
Knoxville–East	44
Knoxville–West	14
Oakridge	9

Source: Yardi Matrix

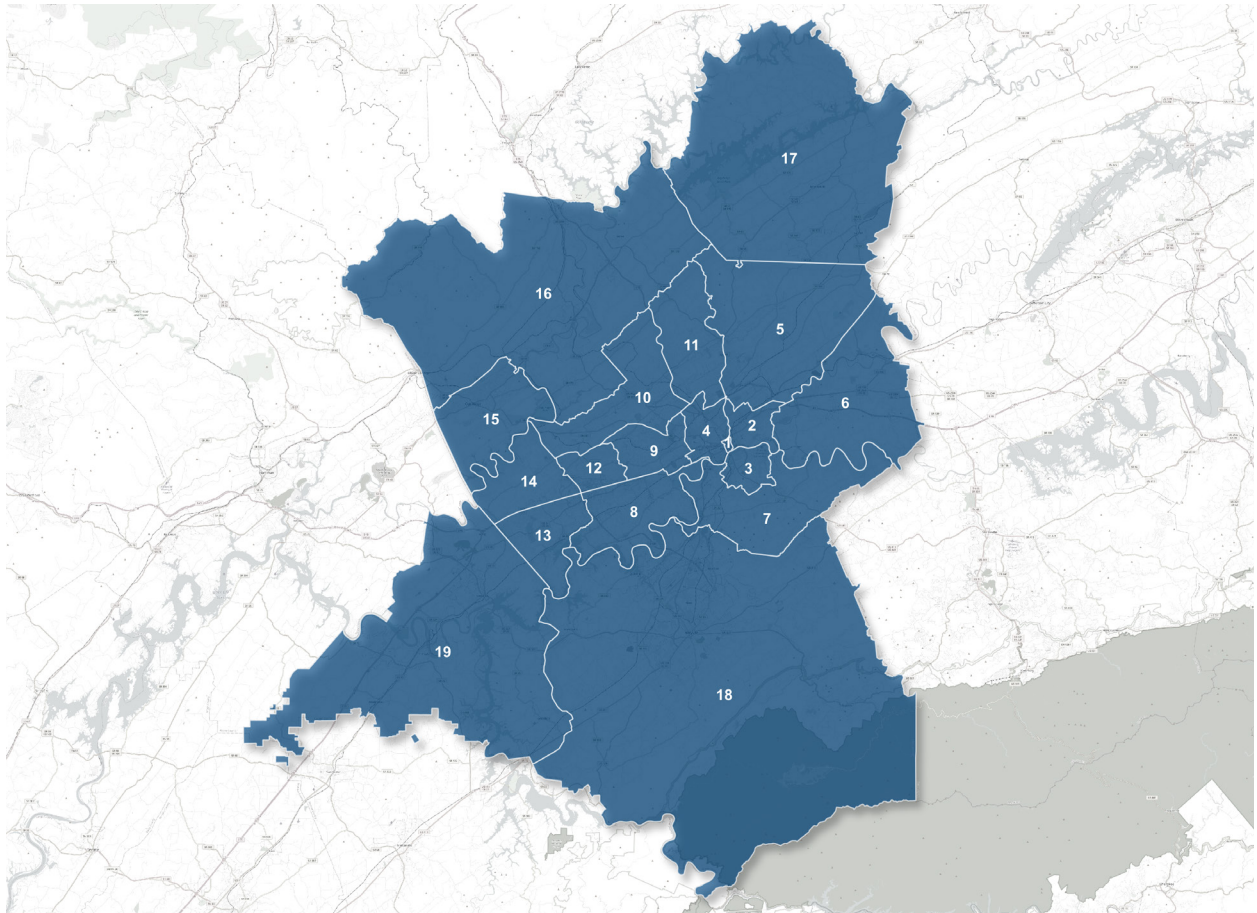
¹ From March 2021 to February 2022

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.



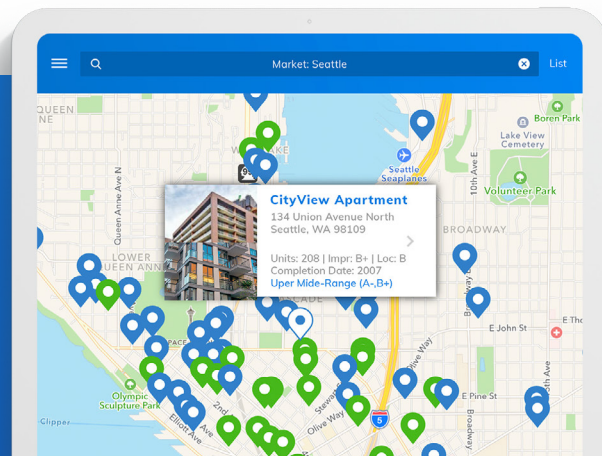
Yardi Matrix

Power your business
with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily
provides accurate data on
19.7+ million units, covering over
92% of the U.S. population.



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