



YARDI[®] Matrix

Knoxville Gives The Old College Try

Multifamily Report Spring 2017

Affordability Draws New Residents

Transactions Hit Cycle High

New Deliveries Slow, Benefiting Rents

Market Analysis

Spring 2017

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Creating an Environment for Growth

Knoxville is a small metro slowly feeling the winds of change. Rent growth has kept pace with the national average. The availability of affordable housing and favorable business costs make the area a fertile environment for new ventures. Home to the University of Tennessee, one of six sun- and land-grant universities in the nation, the market benefits from a steady stream of qualified professionals in some of the most promising job sectors.

Knoxville's economy benefited from gains in the government, leisure and hospitality, and education and health services sectors. The job market performed slightly below the national rate through 2016, with net losses in construction and trade, as well as transportation and utilities. However, upcoming developments in manufacturing, such as gunmaker SCCY's announced move to nearby Maryville are pointing toward more economic growth in 2017.

Knoxville's continued improvement has pushed investment sales to a new cycle high. Developers added few units to the city's housing stock during the cycle's second half, maintaining 95% occupancy. Thanks to that short-term slowdown, we expect rents to continue to grow modestly.

Recent Knoxville Transactions

Forest Ridge/Autumnwood



City: Knoxville, Tenn.
Buyer: Strata Equity
Purchase Price: \$72 MM
Price per Unit: \$119,201

Heritage Lake at Westland



City: Knoxville, Tenn.
Buyer: CF Real Estate Services
Purchase Price: \$33 MM
Price per Unit: \$125,000

Eagle Pointe



City: Knoxville, Tenn.
Buyer: Strata Equity
Purchase Price: \$27 MM
Price per Unit: \$52,315

University Park



City: Knoxville, Tenn.
Buyer: QR Capital
Purchase Price: \$21 MM
Price per Unit: \$108,535

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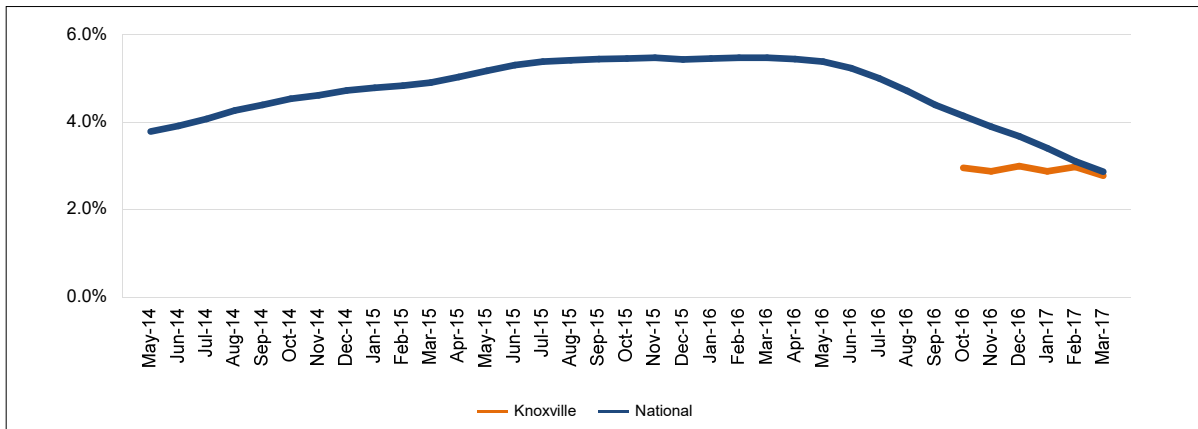
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Rent Trends

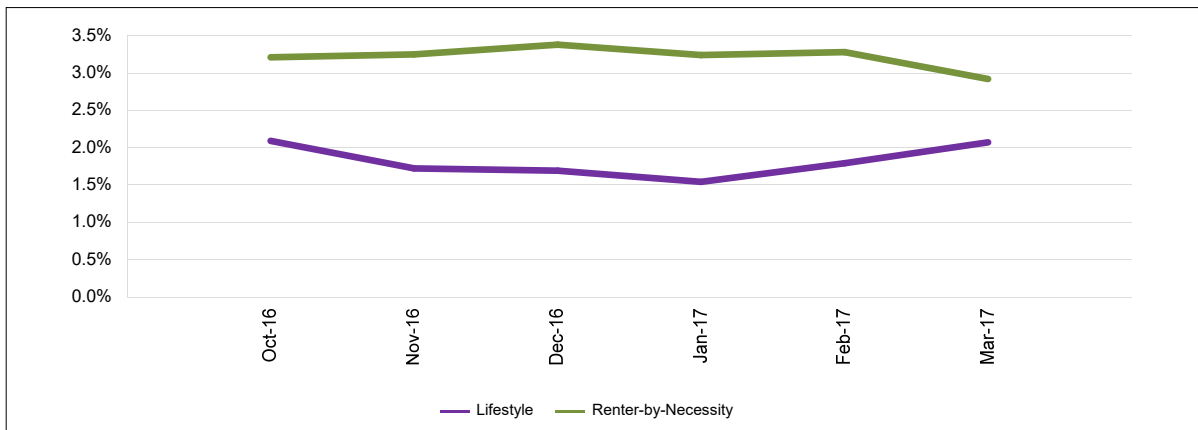
- Rents rose 2.8% year-over-year in March, 10 basis points above the national rate. At the end of 2017's first quarter, rents averaged \$902, more than \$400 under the national figure. Knoxville is also trailing its neighbor to the east, Nashville, where accelerated growth brought the average rent to \$1,131 over the same interval.
- Renter-by-Necessity assets led growth, improving by 3.0% year-over-year to an average of \$786. Because the bulk of Knoxville's multifamily stock is in working-class communities, demand is mostly focused in those areas. With new deliveries expanding housing by just 1.7% in 2016 and occupancy in stabilized properties at 95.0%, the market is poised for further rent gains.
- Rent growth occurred at some of the highest rates in both core and fringe submarkets in Knoxville's western end, with Knoxville–Downtown (6.3%), Powell (6.3%), Farragut (6.1%) and Karns (6%) leading the way. Both developers and investors are largely focusing on the western end of the market, capitalizing on the area's proximity to the I-40 transit corridor, which eases access to Nashville.

Knoxville vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Knoxville Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

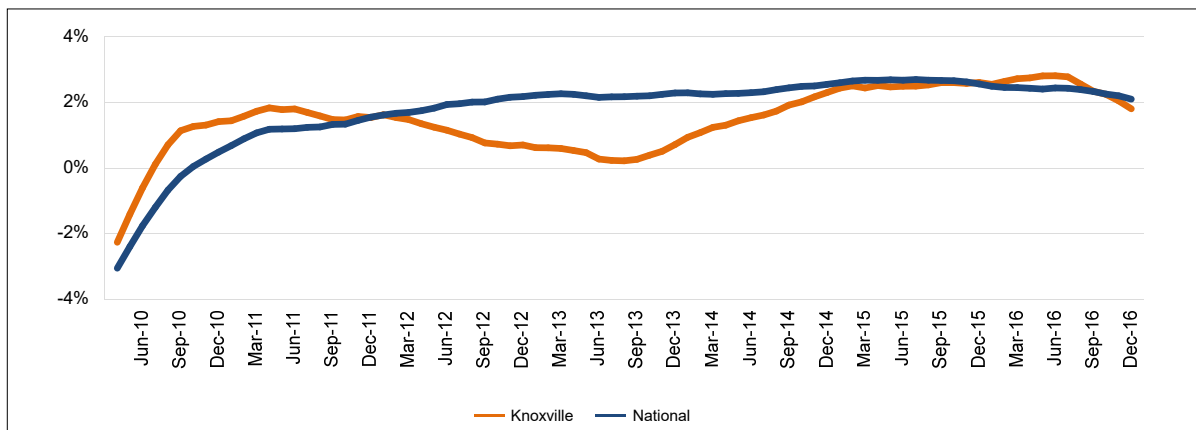


Source: YardiMatrix

Economic Snapshot

- Knoxville added 5,200 jobs in the 12 months ending in January, up 1.8% year-over-year, or 30 basis points below the national average. Government (2,300) led all sectors.
- Education and hospitality added 1,200 jobs and remains one of the cornerstones of the city's economy. A team of researchers from the University of Tennessee was recently awarded a \$9.9 million grant from NASA to research and develop a new type of aircraft wing, which should bolster the institution's recruitment capabilities and support its expansion going forward.
- The manufacturing sector gained 1,000 jobs in the 12 months ending in January. A boon for this industry is handgun maker SCCY Industries' announcement of its relocation to Maryville from Daytona Beach, Fla. SCCY is set to add at least 350 new jobs to the local economy after the move.
- Knoxville's small, 16 million-square-foot office market enjoys a business-friendly environment and the positive influence of the University of Tennessee. A SmartAsset study recently showed that Knoxville is the fifth-lowest-cost city for starting a business. Considerably lower office rents than in Nashville play a significant part in the choice to establish an enterprise in the area.

Knoxville vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Knoxville Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
90	Government	64	16.0%	2,300	3.7%
70	Leisure and Hospitality	43	10.7%	1,800	4.3%
65	Education and Health Services	54	13.5%	1,200	2.3%
30	Manufacturing	37	9.2%	1,000	2.7%
55	Financial Activities	19	4.7%	500	2.7%
50	Information	6	1.5%	200	3.5%
80	Other Services	15	3.7%	200	1.4%
40	Trade, Transportation and Utilities	82	20.4%	-300	-0.4%
60	Professional and Business Services	63	15.7%	-800	-1.3%
15	Mining, Logging and Construction	18	4.5%	-900	-4.9%

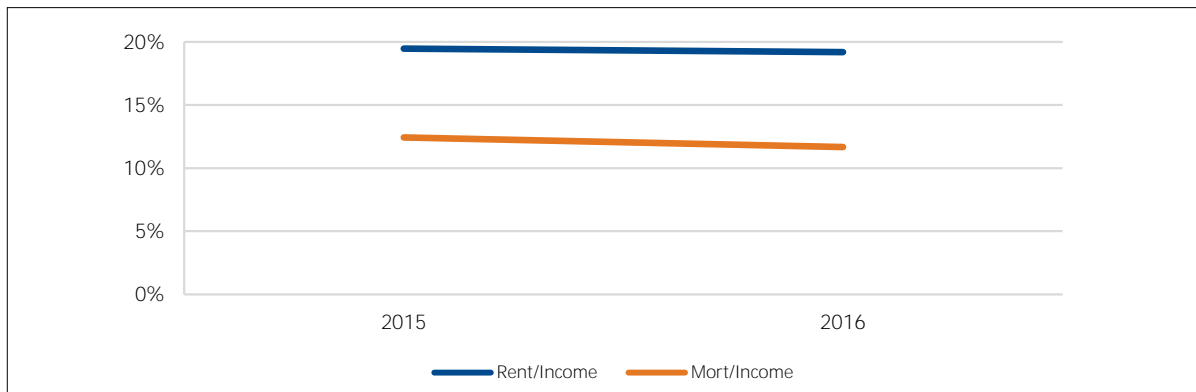
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

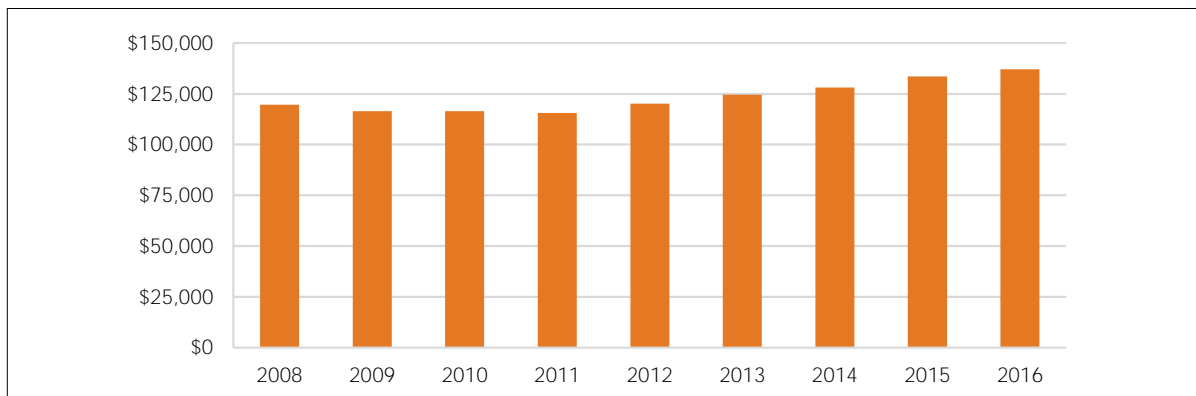
- Knoxville's median home price hit \$137,088 in 2016, an 18% improvement over the trough in 2011. Despite the rise in housing prices, mortgages account for only about 12% of the median income.
- Rent accounts for nearly 20% of incomes, which makes it substantially more costly than owning a home. Knoxville's average rent surpassed \$900 in March, more than \$200 less than Nashville's.

Knoxville Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Knoxville Median Home Price



Source: Moody's Analytics

Population

- Knoxville's population increased by 5,200 in 2016, due in part to new hires by the University of Tennessee. The 0.6% growth lagged the 0.8% national average.

Knoxville vs. National Population

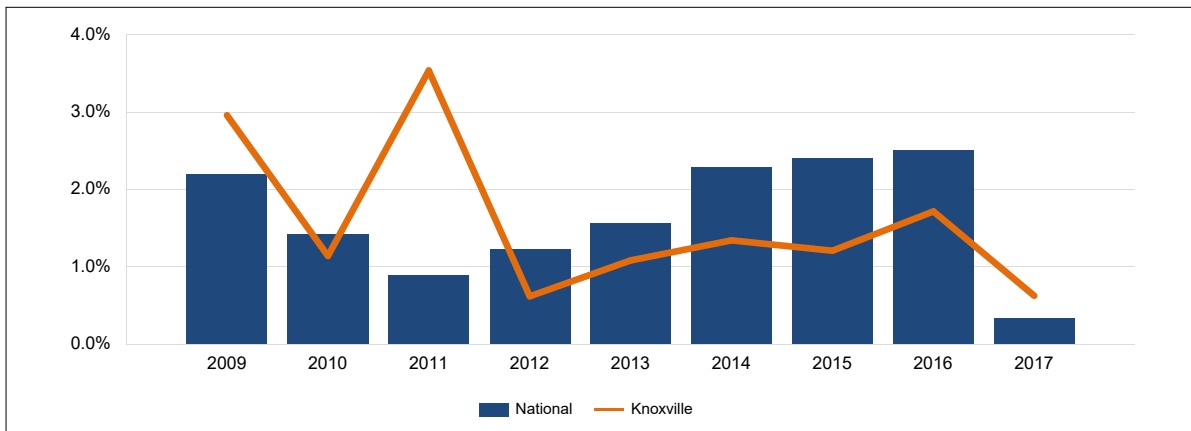
	2011	2012	2013	2014	2015
National	311,663,358	313,998,379	316,204,908	318,563,456	320,896,618
Metropolitan Statistical Area	842,946	847,602	851,811	856,428	861,169

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

Supply

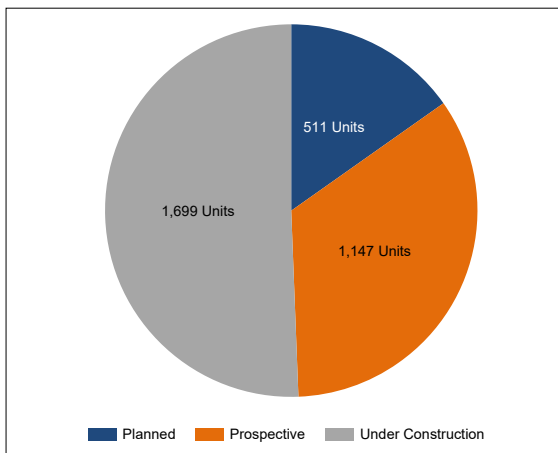
- Developers added 639 units to the market, expanding inventory by 1.7%. With development activity in the state mostly focused in the rapidly developing Nashville market, Knoxville has fallen by the wayside, recording a mere 1% average growth rate for the past four years.
- The development pipeline encompasses more than 3,300 units, roughly equal to the total added to the market's housing stock since 2011. About half of those are underway, pointing toward a similar pace of new deliveries in coming years. With occupancy hovering around 95% and the bulk of the inventory in the Renter-by-Necessity segment, the market will likely continue to be an affordable alternative to rapidly growing Nashville.
- Like investment activity, development is concentrated in western Knoxville, where roughly 900 units are slated for delivery in Northshore, Hardin Valley and Karns.
- The largest multifamily project currently underway is Greystone Properties' 328-unit Greystone Pointe at 10801 Snyder Road in Hardin Valley. The community is set to debut in August.

Knoxville vs. National Completions as a Percentage of Total Stock (as of March 2017)



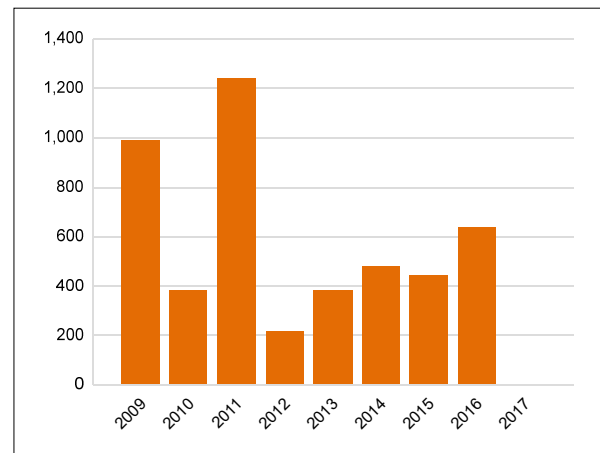
Source: YardiMatrix

Development Pipeline (as of March 2017)



Source: YardiMatrix

Knoxville Completions (as of March 2017)

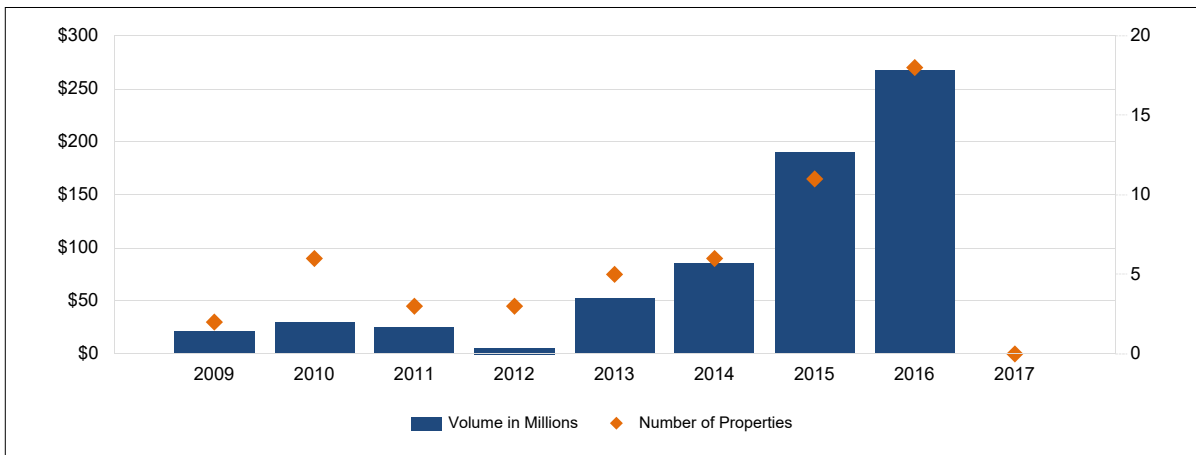


Source: YardiMatrix

Transactions

- \$267 million in multifamily properties changed hands in Knoxville in 2016, representing a new cycle high. Investors targeted lower-rated properties last year, causing the average per-unit price to drop to \$70,459.
- More than half of investment sales were in Knoxville’s western submarkets, including Karns, Middlebrook and Northshore.
- Strata Equity has invested more than \$100 million—the largest amount committed by a single investor in the market in 2016—in the acquisition of three Knoxville multifamily assets. The company’s \$72 million purchase of the Forest Ridge/Autumnwood community in Karns was the largest transaction completed in the market in the past 12 months.

Knoxville Sales Volume and Number of Properties Sold (as of March 2017)



Source: YardiMatrix

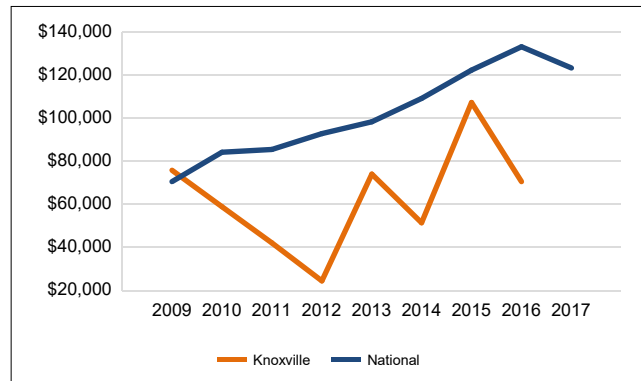
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Karns	72
Middlebrook	36
Northshore	33
Oakridge	30
South Knoxville	21
Knoxville–East	17
Knoxville–Downtown	17
Knoxville–West	13

Source: YardiMatrix

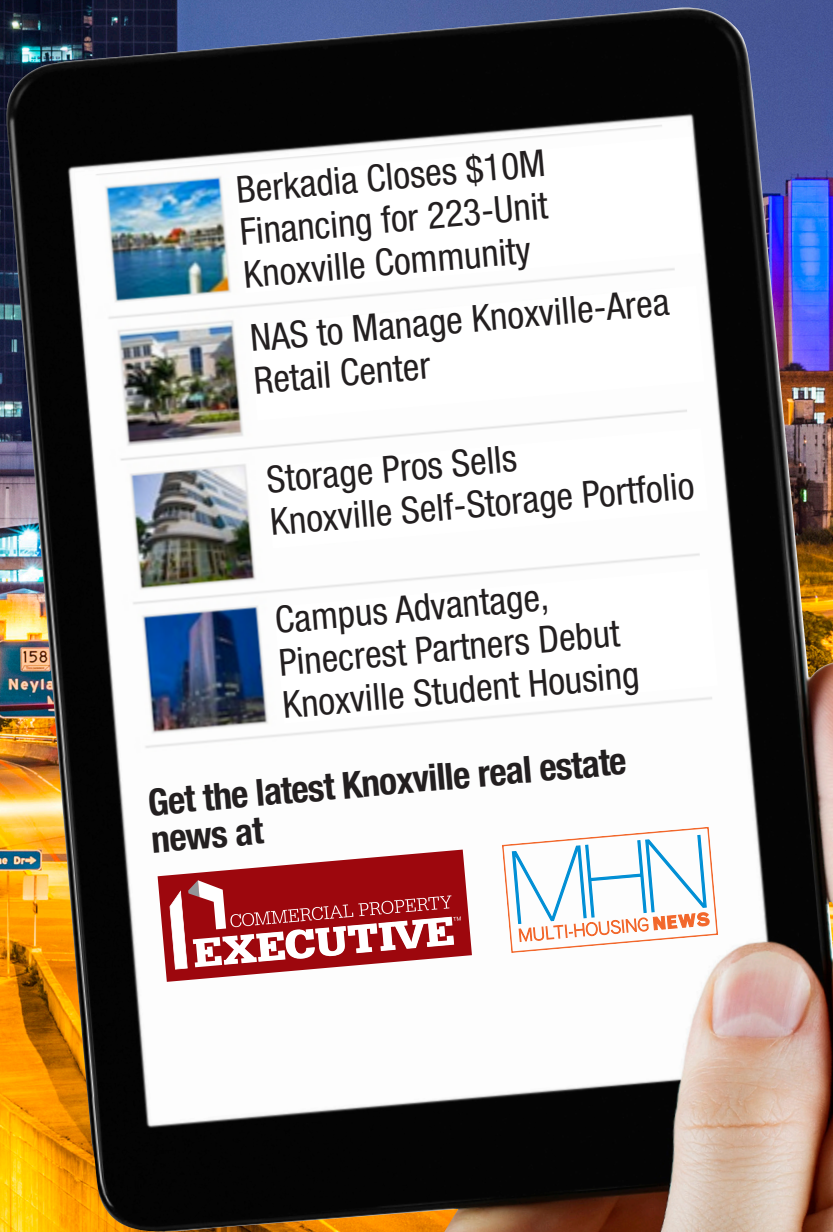
¹ From April 2016 to March 2017

Knoxville vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Berkadia Closes \$10M Financing for 223-Unit Knoxville Community



NAS to Manage Knoxville-Area Retail Center



Storage Pros Sells Knoxville Self-Storage Portfolio

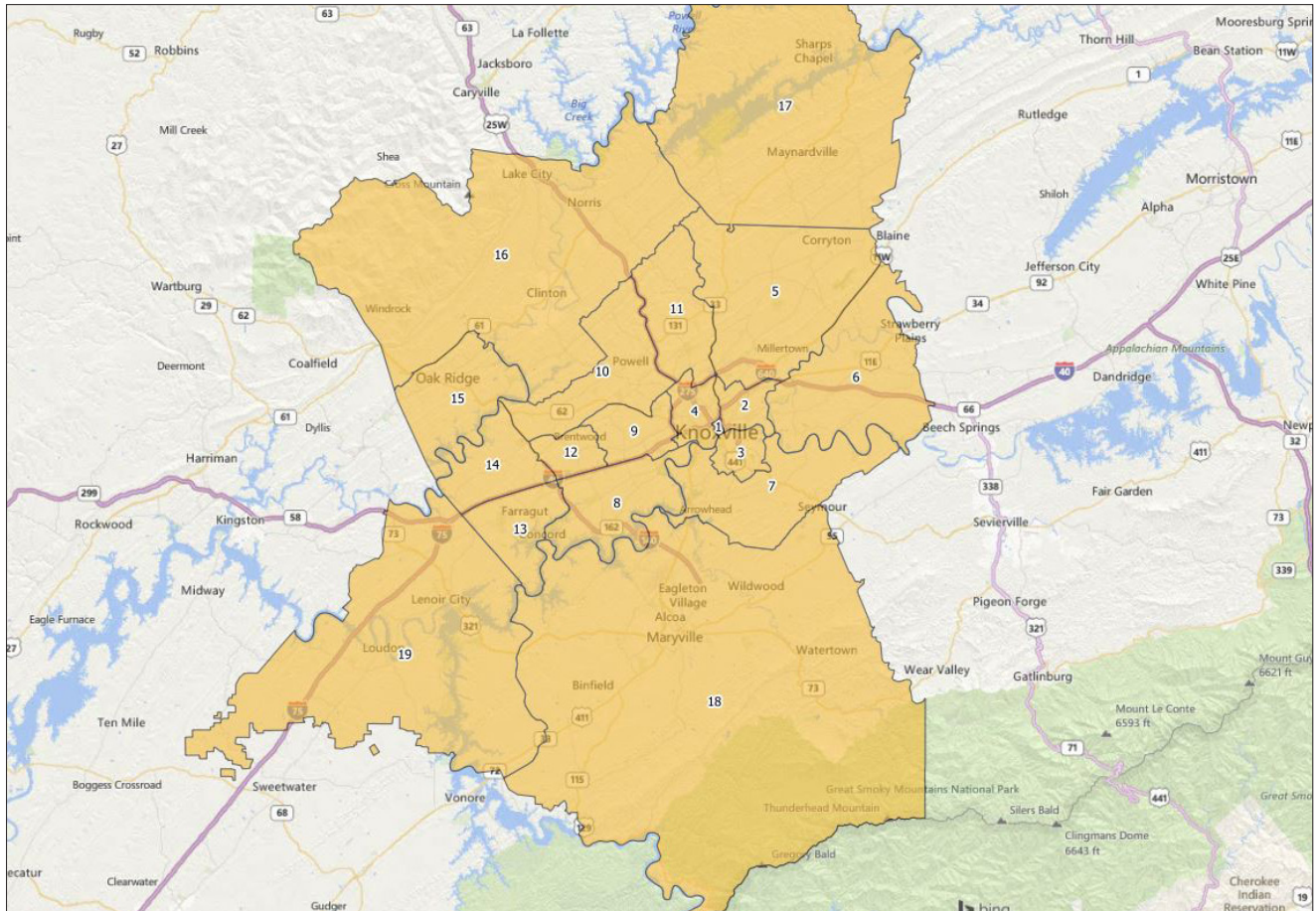


Campus Advantage, Pinecrest Partners Debut Knoxville Student Housing

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Knoxville Submarket Map



Area #	Submarket
1	Knoxville–Downtown
2	Knoxville–East
3	South Knoxville
4	Knoxville–West
5	Corryton
7	Seymour
8	Northshore
9	Middlebrook
10	Karns

Area #	Submarket
11	Powell
12	Cedar Bluff
13	Farragut
14	Hardin Valley
15	Oakridge
16	Anderson
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 may 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 may 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, may 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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