



MULTIFAMILY REPORT

Record-Breaking Knoxville

September 2022

T3 Rent Gains Double US Rate

Deliveries Already at New Decade High

Investment Totals, PPU Record New Peaks

KNOXVILLE MULTIFAMILY



Knoxville Multifamily Going to New Highs

Knoxville's multifamily sector is having a stellar year, with new records across market fundamentals. Rent development on a three-month (T3) basis was 2.0% as of July, double the national rate of improvement. The average overall rate was \$1,451, still well behind the national figure and trailing nearby Nashville. Meanwhile, the average occupancy rate in stabilized properties was one of the highest in the nation, at 98.2% as of June, despite consistently solid development activity in the rental sector.

Employment growth in the 12 months ending in May was consistent, but lower than the national trend. Knoxville added 18,800 jobs, up 4.2% and 40 basis points below the U.S. rate. However, the local economy is already past its pre-pandemic job total, so improvement is arguably very strong. Trade, transportation and utilities is the local economy's cornerstone, accounting for roughly one-fifth of all jobs in the sector. With a new Amazon delivery facility replacing the Knoxville Center Mall, improvement will continue.

Investment activity in Knoxville is already seeing its best year this decade, with \$429 million in sales through the first seven months of 2022, while the average per-unit price crossed the \$200,000 mark for the first time on record. Knoxville added 1,076 units this year through July, already an annual decade high. The metro had another 1,215 units under construction, pointing to continued deliveries.

Market Analysis | September 2022

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Recent Knoxville Transactions

Quarry Trail



City: Knoxville, Tenn.
Buyer: Nitya Capital
Purchase Price: \$95 MM
Price per Unit: \$376,984

The Village at Westland Cove



City: Knoxville, Tenn.
Buyer: Capital Square
Purchase Price: \$87 MM
Price per Unit: \$362,500

Walden Legacy



City: Knoxville, Tenn.
Buyer: Starwood Capital Group
Purchase Price: \$58 MM
Price per Unit: \$246,425

The Reserve at Maryville

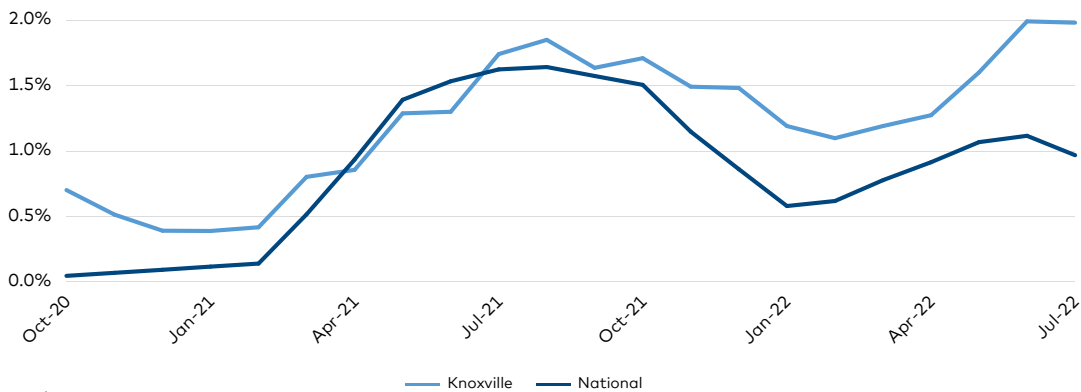


City: Maryville, Tenn.
Buyer: Starwood Capital Group
Purchase Price: \$46 MM
Price per Unit: \$238,527

RENT TRENDS

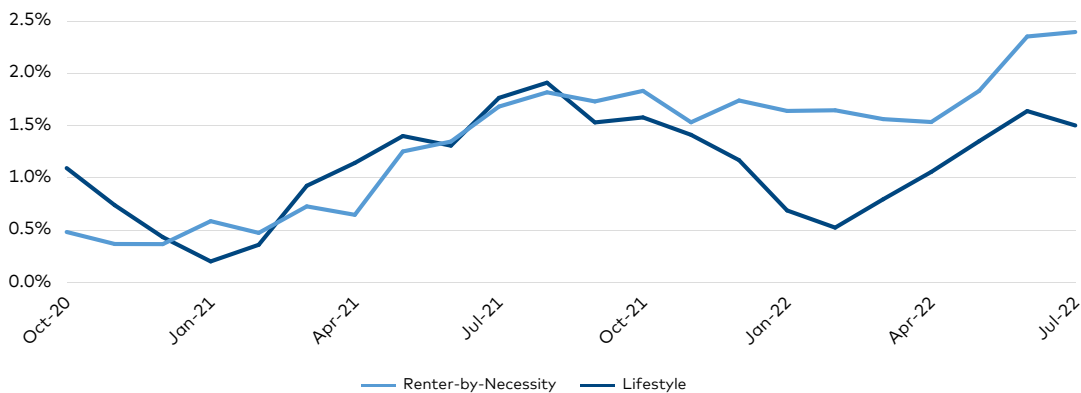
- ▶ Knoxville rates were up 2.0% on a trailing three-month basis as of July, double the 1.0% national rate of development through that time. Rent growth on a year-over-year basis was 17.4% in the metro, 480 basis points higher than the national rate.
- ▶ The average overall rate in the metro was \$1,451 in July, still well under the record national average of \$1,717. Knoxville's average trailed only Nashville (\$1,676) in the state of Tennessee, but was far higher than Chattanooga (\$1,295) and Memphis (\$1,140).
- ▶ Across quality segments, T3 rent growth in the working-class Renter-by-Necessity assets led improvement, at 2.4% as of July, while the Lifestyle segment saw improvement at 1.5%.
- ▶ On a submarket level, improvement has been widespread, with just three of 17 tracked submarkets recording single-digit rent growth on a year-over-year basis, while every other area saw double-digit improvement. Furthermore, only two submarkets remain in the metro with an average rent below \$1,000.
- ▶ The single-family rental sector is also having a banner year in Knoxville, with the average overall rent at \$2,122, \$22 higher than it was in June. Meanwhile, occupancy was extremely high in the sector, at 99.5% in June.

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 added 18,800 jobs in the 12 months ending in May, with all employment sectors recording increases. Employment was up 4.2%, trailing the national rate of growth by 40 basis points. The metro's job slide was less severe than the national trend, so total employment is now already significantly higher than pre-pandemic levels and some 27,000 jobs over March 2020 totals.
- ▶ Knoxville's unemployment rate was 3.8% as of June, 50 basis points higher than the state's overall rate.
- ▶ The metro's main economic driver, trade, transportation and utilities, continued to anchor the employment market, adding 5,200 jobs, a 6.5% rate of growth. The sector further strengthened with the announcement that the former Knoxville Center Mall would be replaced by a new Amazon delivery center. Set to add around 700 jobs at full capacity, the development is a telling transition for the city, further adding to the metro's economic forte in the process.
- ▶ With a sizable amount of multifamily interest centered in submarkets in the western end of the metro, there's some significant commuter interest for those working in nearby Nashville, where the average rent is more than \$200 higher.

Knoxville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	86	20.2%
70	Leisure and Hospitality	45	10.6%
15	Mining, Logging and Construction	22	5.2%
30	Manufacturing	45	10.6%
60	Professional and Business Services	69	16.2%
55	Financial Activities	21	4.9%
65	Education and Health Services	56	13.1%
90	Government	59	13.8%
80	Other Services	17	4.0%
50	Information	6	1.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Knoxville's population increased significantly in 2021, up 1.3% year-over-year. As a relatively affordable Sun Belt metro with a strengthening employment market, Knoxville is far outperforming U.S. trends, with the nation's demographic increase at just 0.1% through that same time.

Knoxville vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Knoxville	885,356	892,544	905,153	917,175

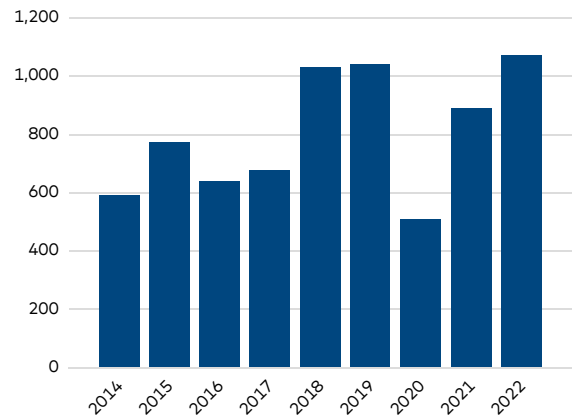
Source: U.S. Census

SUPPLY

- Development activity in Knoxville remained elevated, with 1,215 units under construction, and another 3,500 in the planning and permitting stages. Sun Belt metros with affordable housing have driven activity for a long time in U.S. multifamily, and Knoxville is a microcosm of that trend.
- Deliveries have significantly strengthened through the past decade, and 2022 is shaping up to be the strongest, with 1,076 units already delivered through the first seven months. That already exceeds any other annual total since 2014. Completed units this year represented 2.5% of existing rental stock, more than double the 1.1% national rate.
- Despite increasing multifamily housing stock and solid development activity, Knoxville's average occupancy rate in stabilized assets was 98.2% as of June, up 20 basis points year-over-year. The metro leads all other Tennessee markets by far, with Chattanooga (96.9%), Nashville (96.2%) and Memphis (94.9%) all trailing in terms of average occupancy.

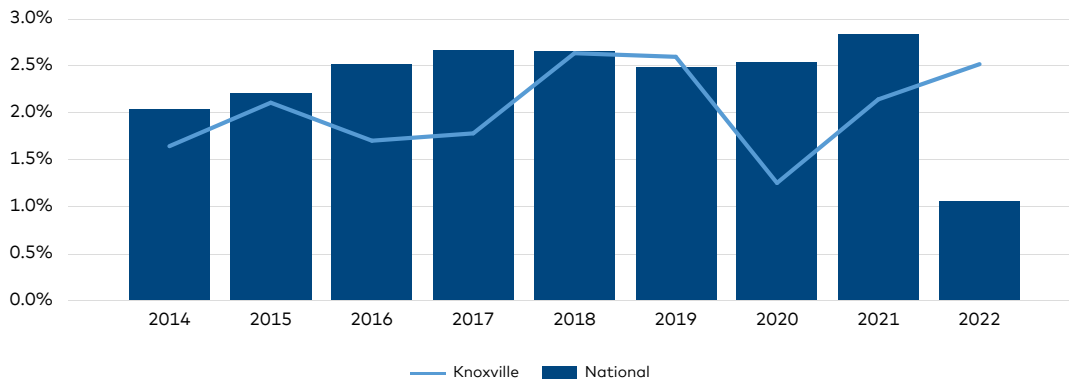
- As of July, development activity was strongest in Knoxville-East (342 units under construction), Loudon (265 units under construction) and Farragut (228 units under construction).
- The Loudon and Farragut submarkets are also in the top three for rental development on the back of single projects underway: Universal at Town Creek in Loudon and Kingston Pike Village in Farragut.

Knoxville Completions (as of July 2022)



Source: Yardi Matrix

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

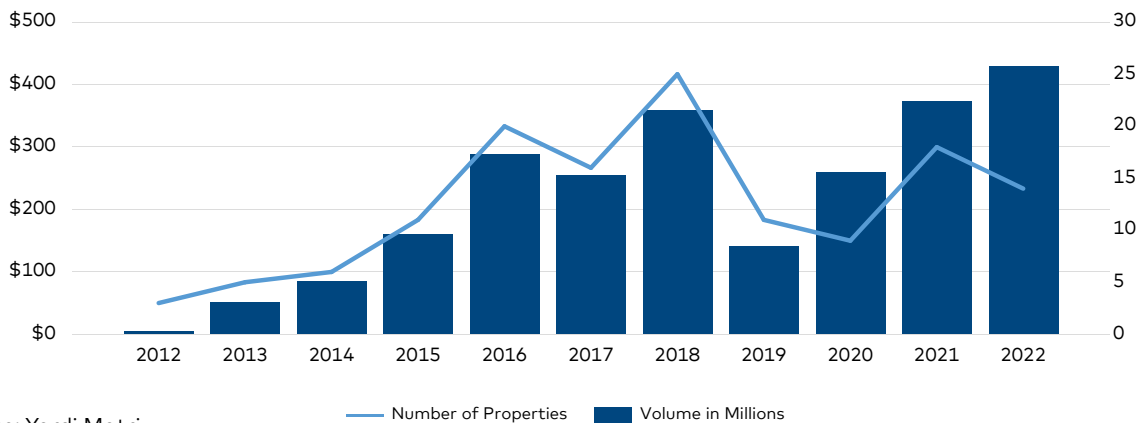


Source: Yardi Matrix

TRANSACTIONS

- ▶ With \$429 million in multifamily deals completed through the first seven months of 2022, Knoxville is lining up a record year for investment. The market has already far outpaced its best full-year total—\$374 million in 2021—by a wide margin.
- ▶ The average price per unit is also up to a new high, at \$204,799 in 2022, up 34% over the 2021 average and just \$12,000 under the national figure. That has heavily factored into the significant sales volume rise this year.
- ▶ Deal distribution between asset classes has also contributed to the banner year the metro is having. Of the 14 deals completed through July, 42% were in the Lifestyle segment.
- ▶ The most sought-after submarkets over the past 12 months were Northshore (\$135 million), Karns (\$133 million) and Seymour (\$95 million).

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



Source: Yardi Matrix

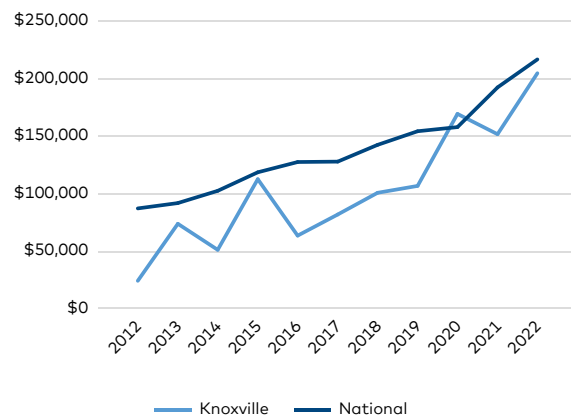
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Northshore	135
Karns	133
Seymour	95
Hardin Valley	62
Cedar Bluff	58
Middlebrook	52
Maryville	46

Source: Yardi Matrix

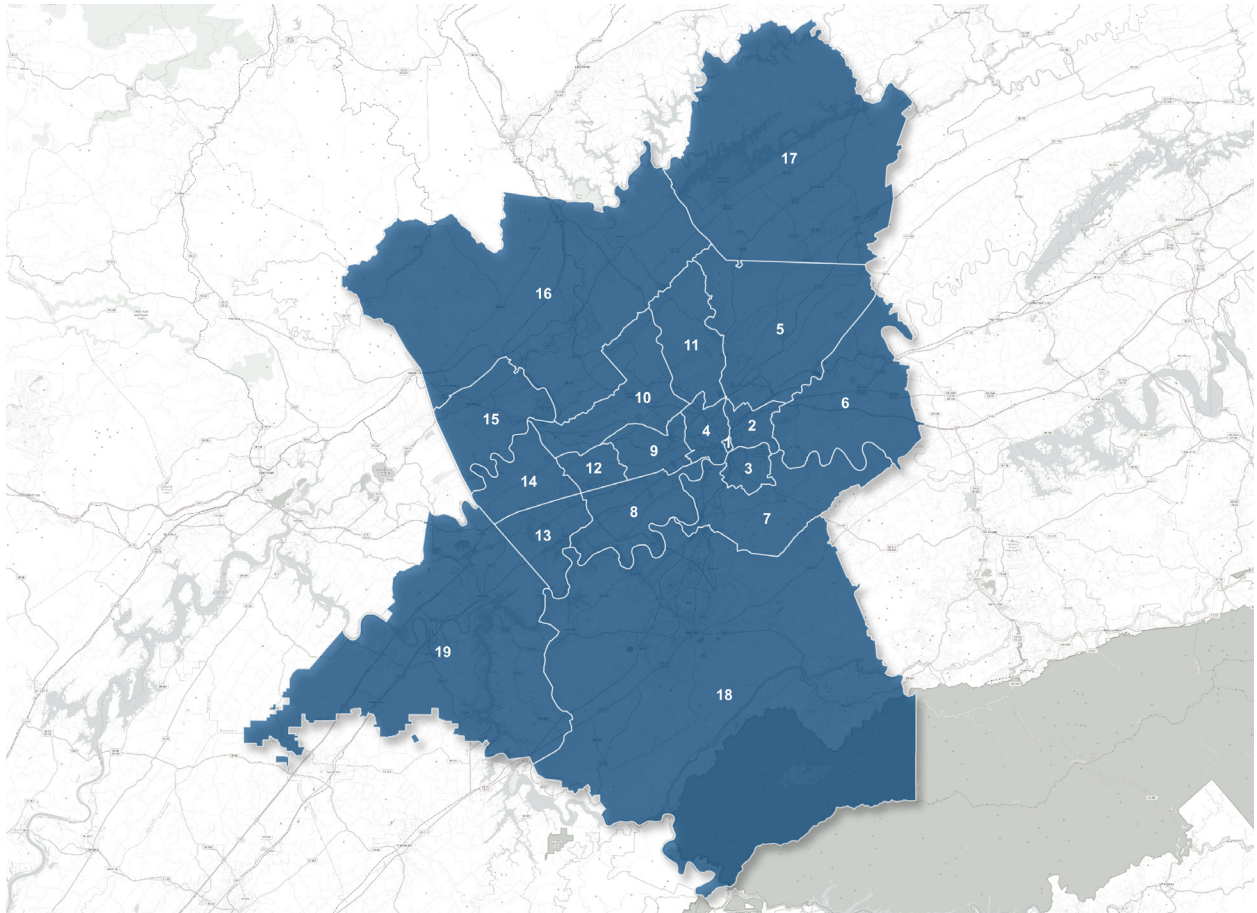
¹ From August 2021 to July 2022

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 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 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, 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.

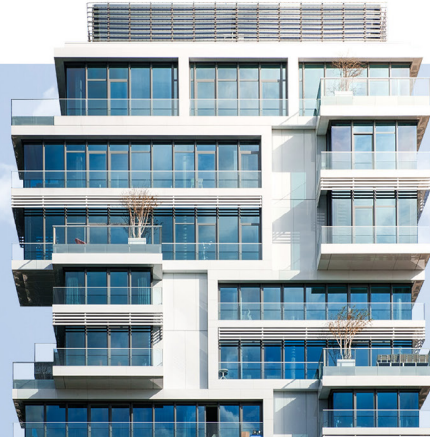
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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



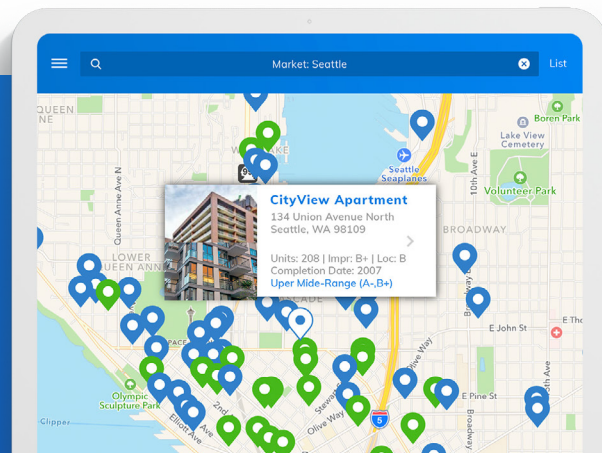
Yardi Matrix

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with the industry's
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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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