

Yardi® Matrix

Knoxville Finds Its Stride

Multifamily Report Summer 2017

Sales Slow but
Prices Soar

Local Rent Growth
Tops State

Development
Ramps Up

Market Analysis

Summer 2017

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No Longer in Nashville's Shadow?

Following the fourth consecutive month of rents growing faster than the national average rate, the city looks poised to take its development even further. A new cycle high for investment sales in 2016 and the expectation that the city will add new units at a rate that has not been met since 2011 are signs that both investors and developers are more actively looking at opportunities in the market.

While job growth tempered over the summer, a number of corporate investments in manufacturing should continue to bolster the economy, and the low unemployment rate indicates that the job market is stable. The announced renovation of the University of Tennessee's 100,000-seat Neyland Stadium is a \$108 million commitment to the improvement of the city's main intellectual node and provider of skilled labor.

Despite limited deliveries during the year's first half, roughly 1,200 units are expected to come online 2017, one of the most substantial completion rates of this cycle. Developers have 1,400 units underway, with another 1,900 in various stages. The relative affordability of housing in Knoxville is making it a cheap alternative to Nashville, with developers focusing on the I-40 corridor, which provides access to the state's largest city. As Knoxville continues to expand, we expect rent growth to remain steady, reaching 4.4% for the year.

Recent Knoxville Transactions

Forest Ridge/Autumnwood



City: Knoxville, Tenn.
Buyer: Strata Equity
Purchase Price: \$72 MM
Price per Unit: \$119,200

Heritage Lake at Westland



City: Knoxville, Tenn.
Buyer: CF Real Estate Services
Purchase Price: \$32 MM
Price per Unit: \$125,000

Walden Legacy



City: Knoxville, Tenn.
Buyer: Bluestone Properties
Purchase Price: \$31 MM
Price per Unit: \$130,932

Eagle Pointe



City: Knoxville, Tenn.
Buyer: Strata Equity
Purchase Price: \$27 MM
Price per Unit: \$52,314

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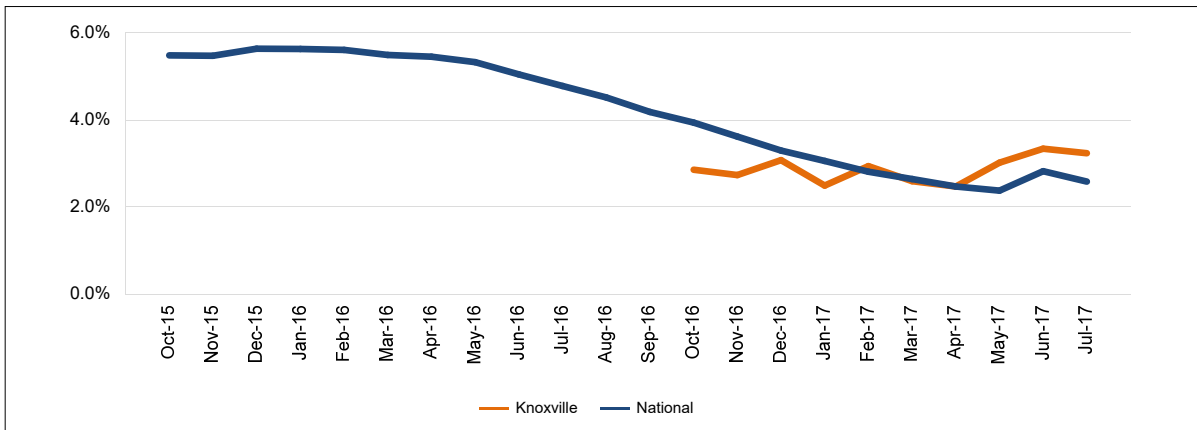
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Rent Trends

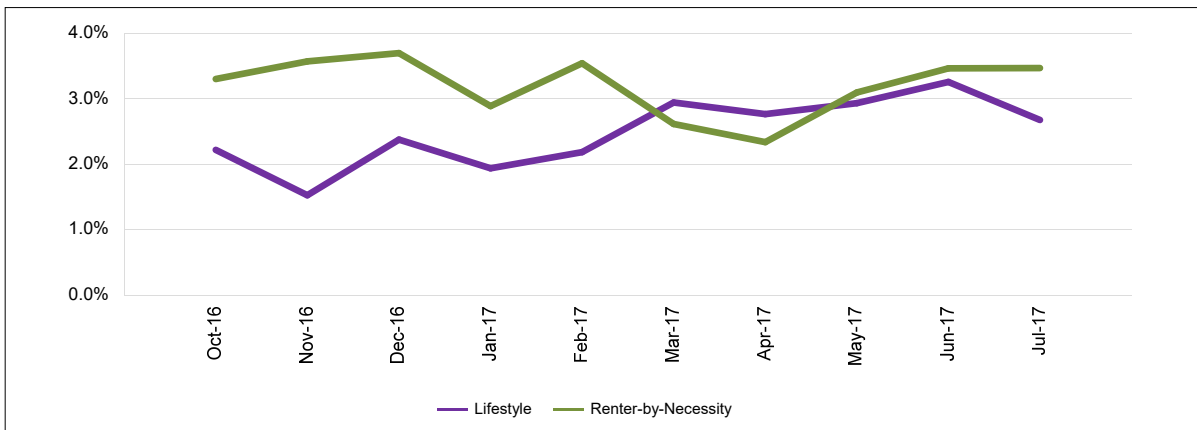
- Up 3.2% year-over-year in July, Knoxville rents were 60 basis points above the national rate. Average rent reached \$926, more than \$400 below the U.S. trend and nearly \$200 lower than the citywide average. However, the limited number of completions and a relatively small development pipeline point to further rent growth.
- Knoxville relies on a predominantly blue-collar economy, and the bulk of the metro's rental inventory falls within the working-class Renter by Necessity segment. RBN drove rental improvement in the past 12 months, up 3.5% year-over-year, or 70 basis points above the rates for properties in the Lifestyle segment.
- Rent growth was strongest in Anderson (8.1%), South Knoxville (6.9%), Karns (6.0%) and Farragut (5.7%). The redevelopment of the South Knoxville riverfront is important to the area's growing demand, while submarkets in the western end of the metro are proving popular with both investors and developers, due to their proximity to Nashville.
- A low unemployment rate and the relative affordability of the city should sustain demand for the foreseeable future, leading Yardi Matrix to expect rent growth of 4.4% in 2017.

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)

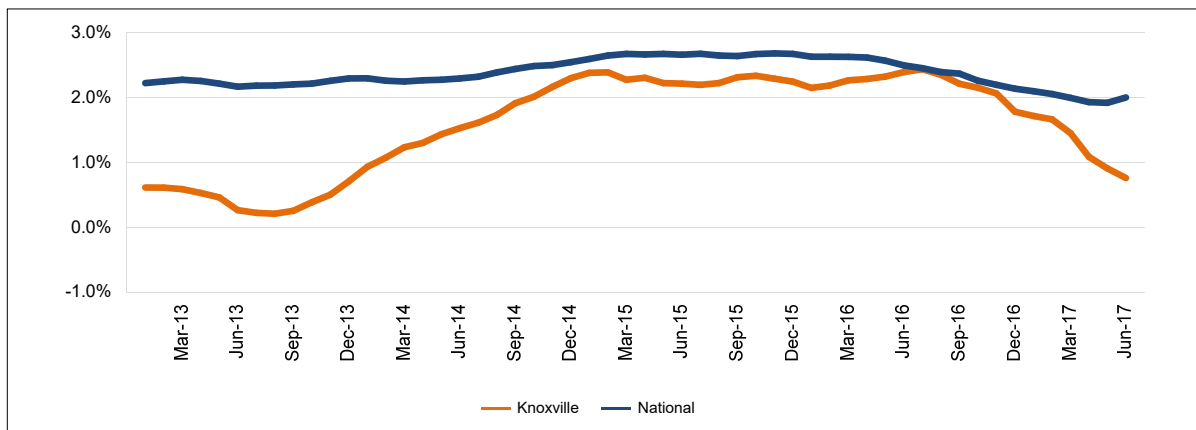


Source: YardiMatrix

Economic Snapshot

- Knoxville's job market effectively plateaued in the 12 months ending in June, with gains in trade, transportation and utilities and financial activities being canceled out by the decrease in professional and business services positions. However, Knoxville has one of the lowest unemployment rates among major U.S. metros, at just over 4.0% as of June.
- Despite the current slump in job creation, several high-profile investments—such as the redeveloped South Knoxville riverfront—aim to bring more jobs to the area, while the city is also looking for ways to attract tourists from the nearby Great Smokey Mountains National Park.
- Manufacturing was one of the sectors to improve, having added 300 jobs year-over-year. LeMond Composites is closing in on the opening of a \$125 million production line in West Oak Ridge. Expected to become fully operational in 2018, the facility is eyeing rapid growth, and will create an estimated 240 new jobs.
- Knoxville's office market has consistently improved over the second half of the current cycle, albeit at a slow rate. The office vacancy rate is in the 6.0% range, while the availability of Knox County's historic Andrew Johnson building could mean the addition of a landmark office property to the city's stock.

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	%
40	Trade, Transportation and Utilities	81	20.7%	1,100	1.4%
55	Financial Activities	20	5.1%	600	3.1%
70	Leisure and Hospitality	43	11.0%	400	0.9%
80	Other Services	15	3.8%	300	2.0%
30	Manufacturing	39	10.0%	300	0.8%
90	Government	57	14.6%	200	0.4%
50	Information	6	1.5%	-100	-1.8%
65	Education and Health Services	53	13.6%	-500	-0.9%
15	Mining, Logging and Construction	17	4.3%	-600	-3.4%
60	Professional and Business Services	61	15.6%	-1,800	-2.9%

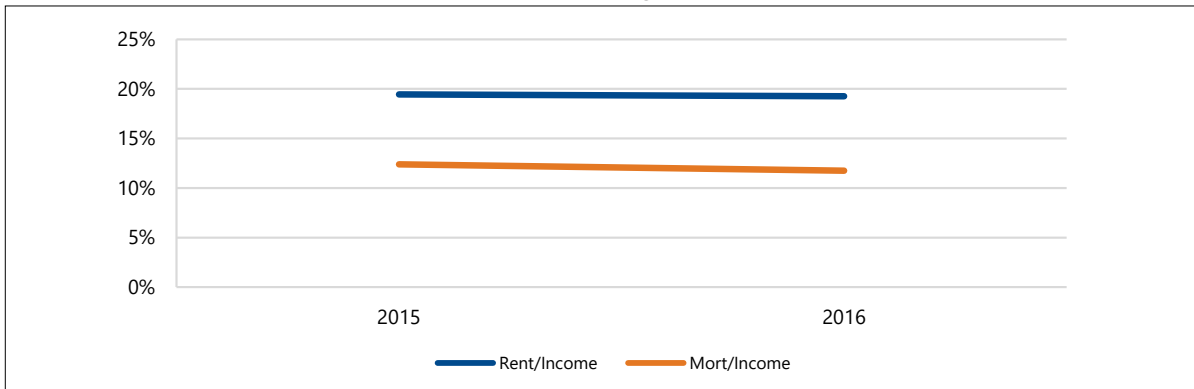
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

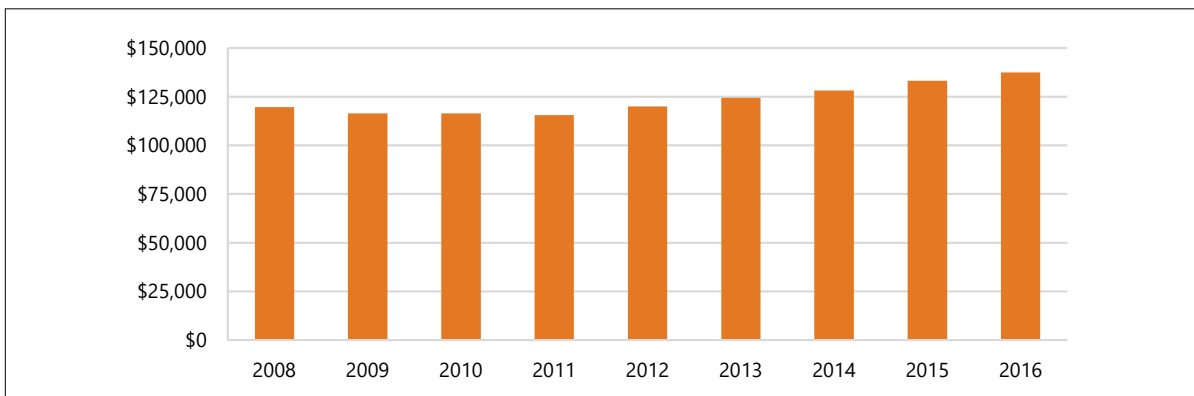
- Knoxville's median home value stood at \$137,450 in 2016, up 19% since 2011. Although the local housing market was less affected by the depression than most of the U.S., growth has been tepid throughout the cycle.
- Incomes are positioned above the national average, while home values are well below the U.S. median. This leads to healthy affordability, as the average mortgage payment accounts for only 12% of income. The average rent, at \$926 in July, takes up 19%, making owning significantly less costly. With both rents and home prices much lower than in nearby Nashville, the city is a more affordable option for those willing to commute to the state capital.

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 added 7,400 residents in 2016, a 0.9% increase, 30 basis points above the U.S. average.
- The Knoxville metro area is the third-largest in the state of Tennessee.

Knoxville vs. National Population

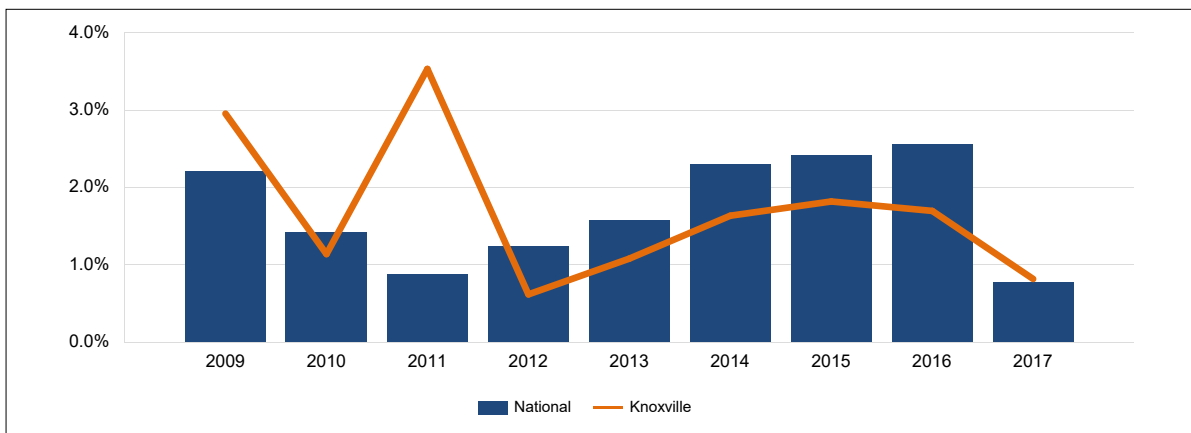
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Knoxville Metro	847,602	851,811	856,428	861,169	868,546

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

Supply

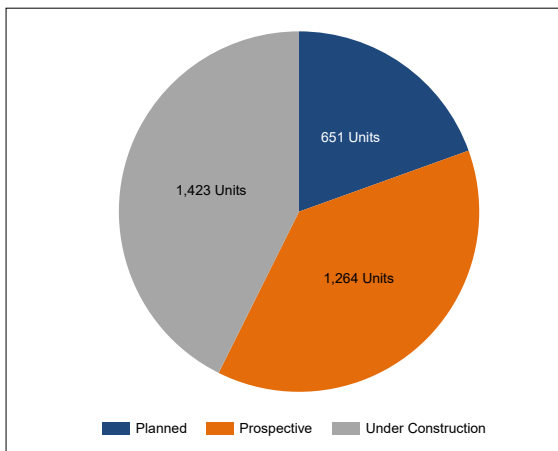
- Although deliveries have been limited during the first seven months of 2017, roughly 1,200 units are expected to be added to the market by year-end, or about 2.9% of the total stock. This would be largely in line with the rate of completions projected for the entire U.S. in 2017.
- Roughly 1,400 units were under construction at the end of July, while another 1,900 were in the planning and permitting stages. This largely points at a return to a reduced rate of delivery, which has largely characterized the current cycle, when just over 5,200 units came online.
- The average occupancy rate in stabilized properties was 95.8% as of July, up 20 basis points year-over-year. More than 1,000 units were absorbed during this time, which, along with limited completions, has pushed up occupancy rates in both the Renter-by-Necessity and Lifestyle segments.
- Developers are working on projects in Hardin Valley (328 units underway), South Knoxville (315 units) and Northshore (246 units). The largest project that's set to be completed by the end of the year is Greystone Pointe, a 328-unit community in the Hardin Valley submarket.

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



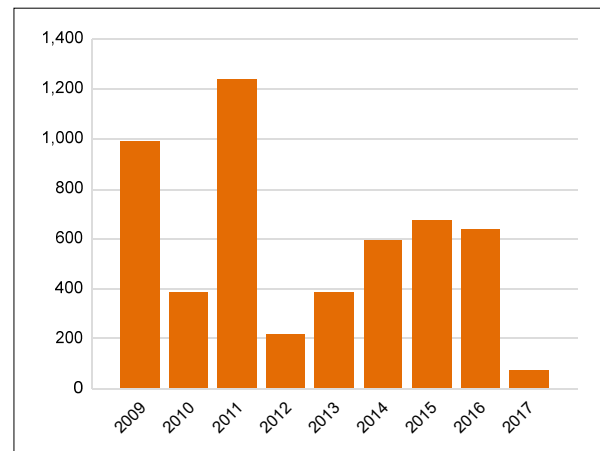
Source: YardiMatrix

Development Pipeline (as of July 2017)



Source: YardiMatrix

Knoxville Completions (as of July 2017)

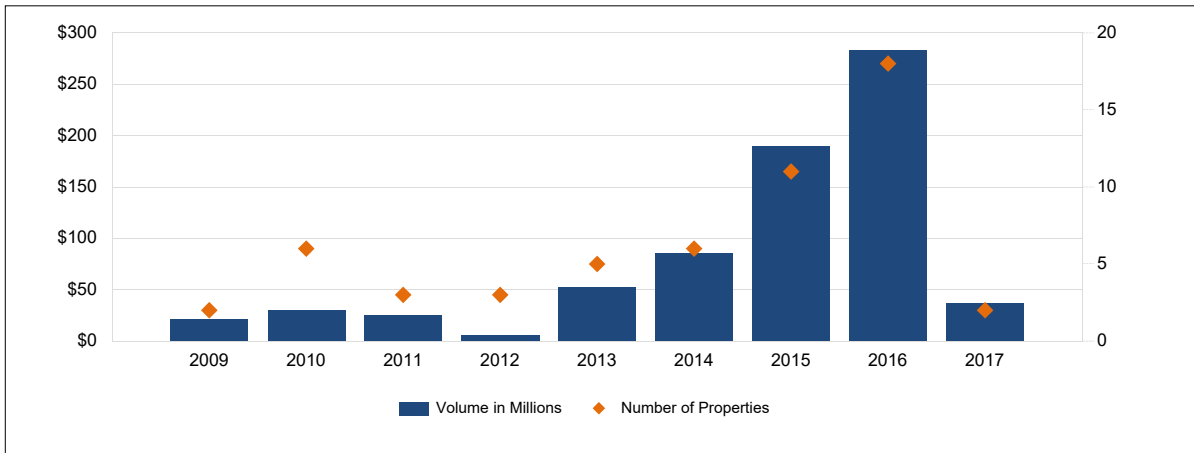


Source: YardiMatrix

Transactions

- In the 12 months ending in July, roughly \$260 million in multifamily properties traded in Knoxville. Following 2016's cycle high of \$283 million, investment activity has been largely tepid throughout the year. Per-unit values, however, have been significantly higher in 2017.
- The average per-unit price in 2017 through July was \$100,020, up 55% over 2016. This value is still \$7,000 lower than the cycle high recorded in 2015 and \$32,000 below the national average.
- Investors focused on Karns (\$72 million), Northshore (\$33 million) and Cedar Bluff (\$31 million). These submarkets lie around Interstate 40, which connects Knoxville to Nashville, Tennessee's major urban center. The most active investor in the market over the past 12 months was Strata Equity. The company purchased Forest Ridge/Autumnwood, Eagle Pointe and Hinton Hollow for about \$107 million, or \$89,972 per unit.

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



Source: YardiMatrix

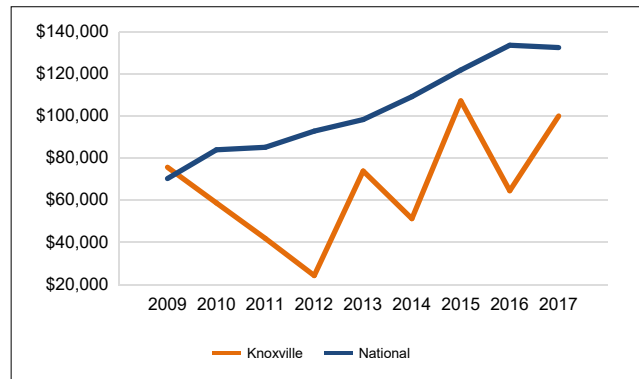
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Karns	72
Cedar Bluff	39
Middlebrook	36
Northshore	33
Oakridge	30
Knoxville–East	17
Knoxville–Downtown	17
Anderson	9

Source: YardiMatrix

¹ From August 2016 to July 2017

Knoxville vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



TN Walmart Portfolio
Changes Hands in \$50M Deal



Strawberry Fields Refinances
TN Skilled Nursing Facilities



Continental Realty
Acquires \$47M TN Community

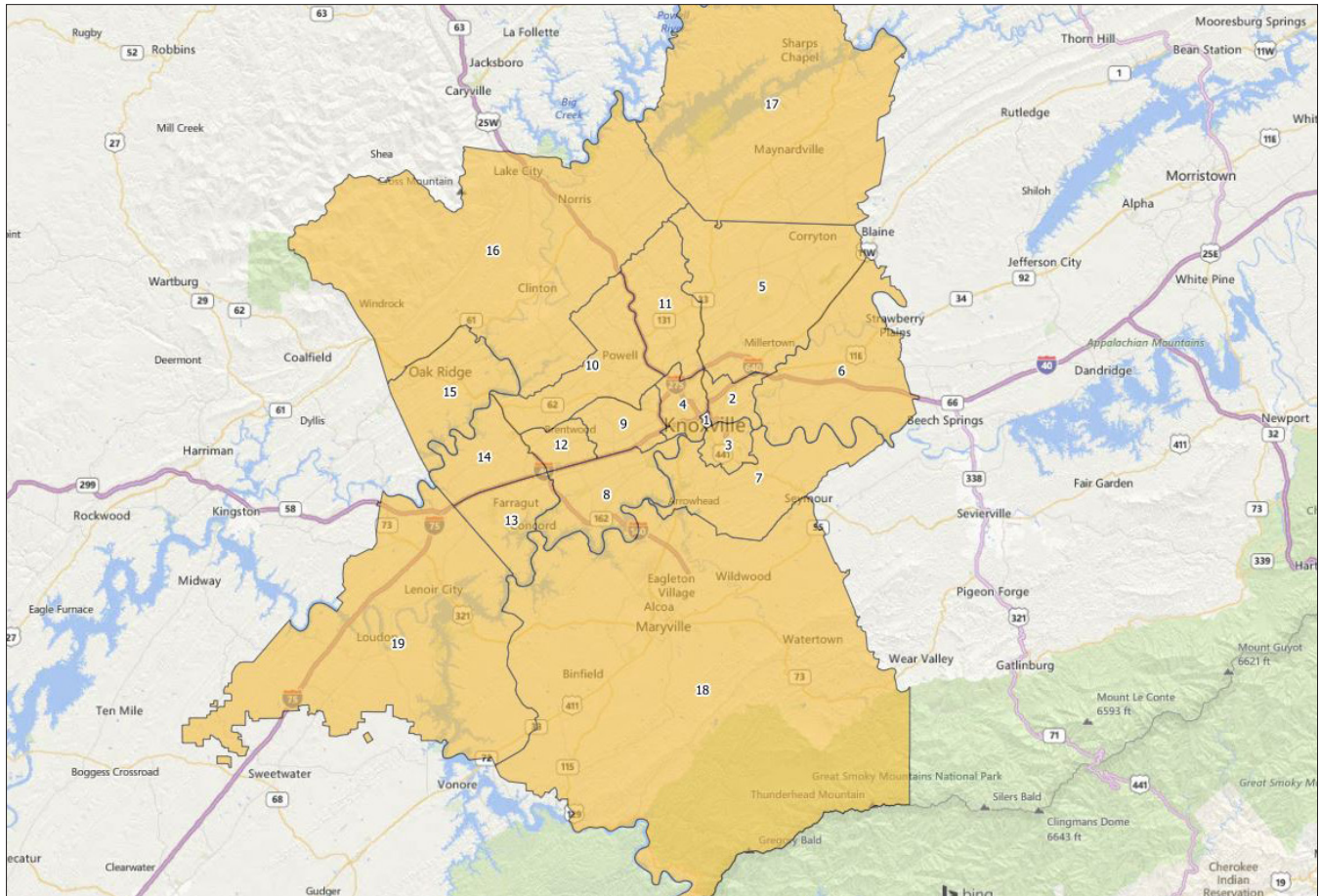


LG Electronics Breaks Ground
On 1MSF TN Factory

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Knoxville Submarkets



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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