



MULTIFAMILY REPORT

# Knoxville Pursues Growth

April 2023

**YoY Rent Growth Still in Double Digits**

**New Construction Starts Pick Up**

**Occupancy Dips, Still Above 97%**

# KNOXVILLE MULTIFAMILY



## Healthy Demand Supports Rates, Occupancy

Knoxville's multifamily market had a remarkable 2022, sustained by healthy demand that triggered record-high investment and deliveries. This kept rent growth above the U.S. average for most of the pandemic. As of February, the metro's average asking rate posted a consistent 12.8% year-over-year increase, to \$1,391, while the U.S. figure rose just 4.8%, to \$1,702. The occupancy rate in stabilized properties decreased 50 basis points in the 12 months ending in January, to a still high 97.6%.

Knoxville unemployment started the year at 3.3%, outperforming the state (3.5%) and the U.S. (3.4%), according to preliminary data from the Bureau of Labor Statistics. Although better than pre-pandemic levels, it still lagged Nashville (2.7%). The job market expanded by 4.7%, or 20,400 jobs, in the 12 months ending in December, ahead of the 3.4% national rate. All sectors added positions, led by trade, transportation and utilities, which gained 3,200 positions. Notable companies expanding in the metro include 3M—working on a \$470 million plant expansion—and Topgolf, which recently opened its first location in Knoxville.

As of February, no deliveries or sales were recorded. This came on the heels of record performance in 2022, when Knoxville saw a 3.2% stock expansion, \$422 million transaction volume and 22.5% year-over-year increase in the price per unit, to \$185,535. Still, the construction pipeline remained robust, with 2,749 units underway.

## Market Analysis | April 2023

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### Recent Knoxville Transactions

#### The Village at Westland Cove



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

#### Brendon Park



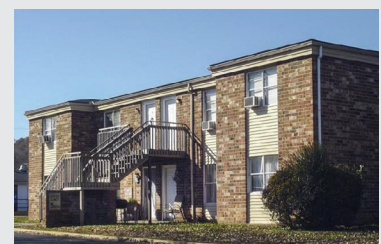
City: Knoxville, Tenn.  
Buyer: Dominion Group  
Purchase Price: \$57 MM  
Price per Unit: \$175,000

#### The Vue at Ridge Way



City: Knoxville, Tenn.  
Buyer: Brookside Properties  
Purchase Price: \$15 MM  
Price per Unit: \$154,167

#### McKenzie Acres



City: Oak Ridge, Tenn.  
Buyer: WNC & Associates  
Purchase Price: \$4 MM  
Price per Unit: \$38,950

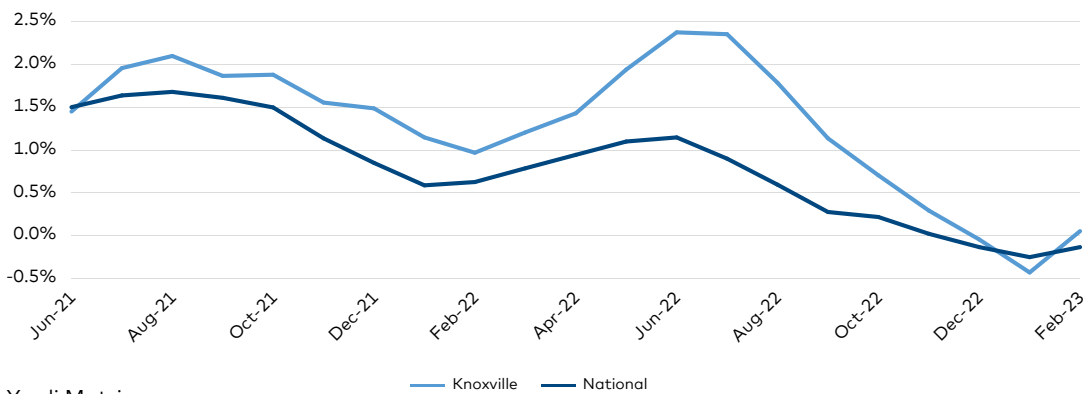
## RENT TRENDS

- ▶ Following a brief one-month dip below zero, Knoxville rent gains rebounded and remained flat on a trailing three-month (T3) basis through February, to \$1,391, while the U.S. average slid 0.1% to \$1,702. On a year-over-year basis, rents in the metro were up 12.8%, well ahead of the 4.8% national figure.
- ▶ Renter-by-Necessity rates declined in December (-0.1% on a T3 basis) and January (-0.5%), largely contributing to the drop in the overall rent in January. In February, rates rebounded and rose 0.2% on a T3 basis, to \$1,222. Meanwhile, Lifestyle figures posted a second consecutive month of depreciation, down 0.2% to \$1,729.
- ▶ Robust demand supported Knoxville's position as one of the tightest rental markets in the

country. The average rate was 97.6% in January, following a 50-basis-point decline. The rate decreased more in the Lifestyle segment (70 basis points year-over-year) but remained high at 97.6%. Meanwhile, RBN occupancy slid 40 basis points to 97.6%.

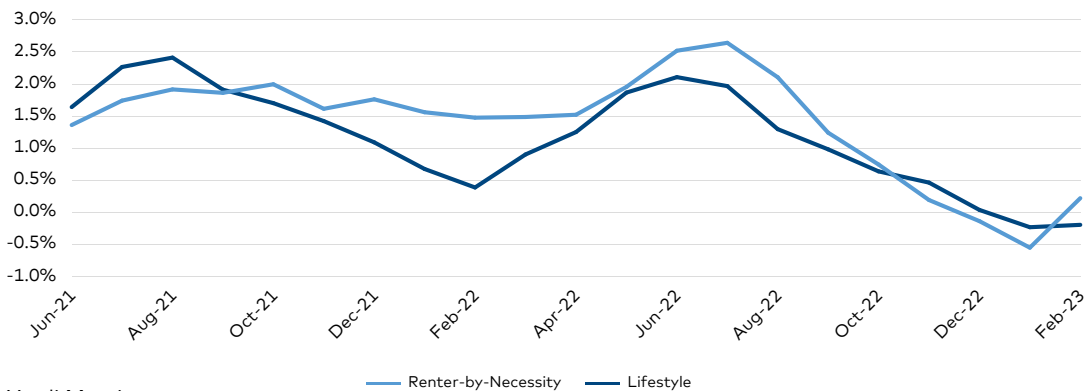
- ▶ Year-over-year rent growth was negative in just one submarket—Farragut, down 2.8% to \$1,294. The area also had the second-largest construction pipeline. Half of Knoxville's submarkets posted double-digit increases. Downtown—the metro's most expensive submarket—was one such area, with an average rent of \$1,875, following a 24.4% gain. As of February, just one submarket had an average below the \$1,000 mark, down from four the previous year.

### 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 unemployment stood at 3.3% in January, ahead of the state (3.5%) and the U.S. (3.4%), according to data from the BLS. The rate was a 70-basis-point increase from December and surpassed pre-pandemic values. Among other Tennessee markets, Knoxville led Chattanooga (3.4%) and trailed Nashville (2.7%).
- ▶ The employment market expanded by 4.7%, or 20,400 jobs, in the 12 months ending in December, 100 basis points above the U.S. rate. Unique to the metro, the job market has maintained an upward trend since February 2022. Knoxville has been in expansion mode since October 2021, when it managed to recover all the jobs lost during the pandemic.
- ▶ All sectors added jobs in 2022, with trade, transportation and utilities—the metro’s largest sector—leading gains, with 3,200 new positions. Next in line was mining, logging and construction, which added 3,100 positions, for a substantial 15.7% expansion.
- ▶ Several companies expanded or announced plans to expand in Knoxville, which will help the metro in the long run. Among them is 3M, which announced a \$470 million investment in its plant in Clinton, creating some 600 new jobs by 2025. Meanwhile, Topgolf opened its third location in the state and first Knoxville venue, in Farragut, adding 300 full- and part-time jobs.

### Knoxville Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
40	Trade, Transportation and Utilities	91	20.7%
15	Mining, Logging and Construction	23	5.2%
65	Education and Health Services	58	13.2%
70	Leisure and Hospitality	45	10.3%
90	Government	61	13.9%
60	Professional and Business Services	71	16.2%
30	Manufacturing	46	10.5%
55	Financial Activities	22	5.0%
80	Other Services	17	3.9%
50	Information	6	1.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ Knoxville’s population registered robust growth during the pandemic, up by 1.4% in 2020 and 1.3% in 2021. Meanwhile, the U.S. rate rose 0.1% in 2021.
- ▶ Since the 2010 Census, Knoxville’s demographics have expanded by 9.4%, leading the 7.3% U.S. rate.

### 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

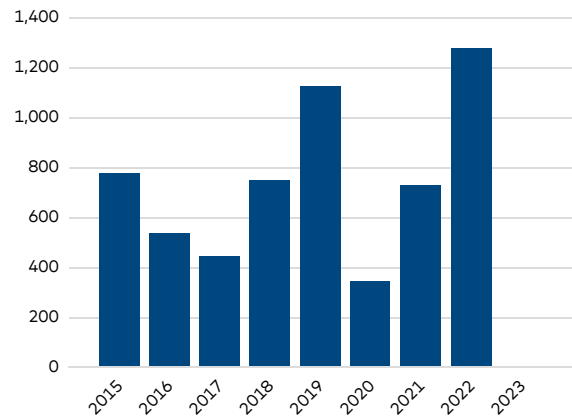
Source: U.S. Census

## SUPPLY

- ▶ Last year marked an all-time high for inventory expansion, with 1,277 units delivered, the equivalent of 3.2% of existing stock and well above the 2.3% U.S. rate and the metro's 1.8% five-year average. Strong demand stemming from robust population growth encouraged developers to expand in Knoxville. However, the looming recession caused by high inflation and rising interest rates dampened deliveries at the start of 2023.
- ▶ The construction pipeline remained robust, accounting for 2,749 units underway and another 4,600 units in the planning and permitting stages. As of February, more than 70% of the units under construction targeted the Lifestyle segment and 16% were in fully affordable communities. Accounting for anticipated delays, Yardi Matrix expects no more than 1,035 units to come online in 2023, representing 2.6% of total stock.
- ▶ By number of construction starts, Knoxville's volume marked a massive jump last year, to 2,184 units in 12 properties, from just 300 units in two properties in 2021. However, this strong performance will be short-lived, as tougher credit conditions are expected to shrink the pipeline.

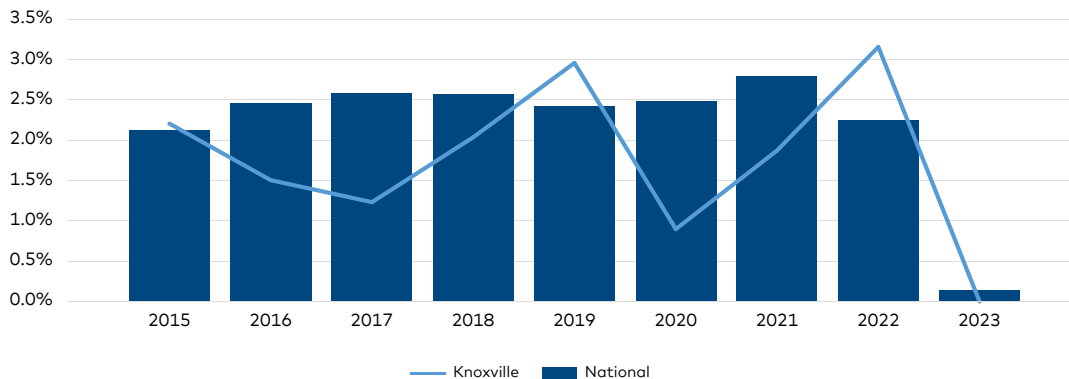
- ▶ Construction activity was spotty across the map. Of the 17 submarkets tracked by Yardi Matrix, nine had at least 50 units underway. Maryville—where the average rent recently crossed the \$1,000 mark—led with 808 units underway, followed by Farragut (638 units). Loudon rounded out the top three, with significantly fewer units underway (265).

**Knoxville Completions** (as of February 2023)



Source: Yardi Matrix

**Knoxville vs. National Completions as a Percentage of Total Stock** (as of February 2023)



Source: Yardi Matrix

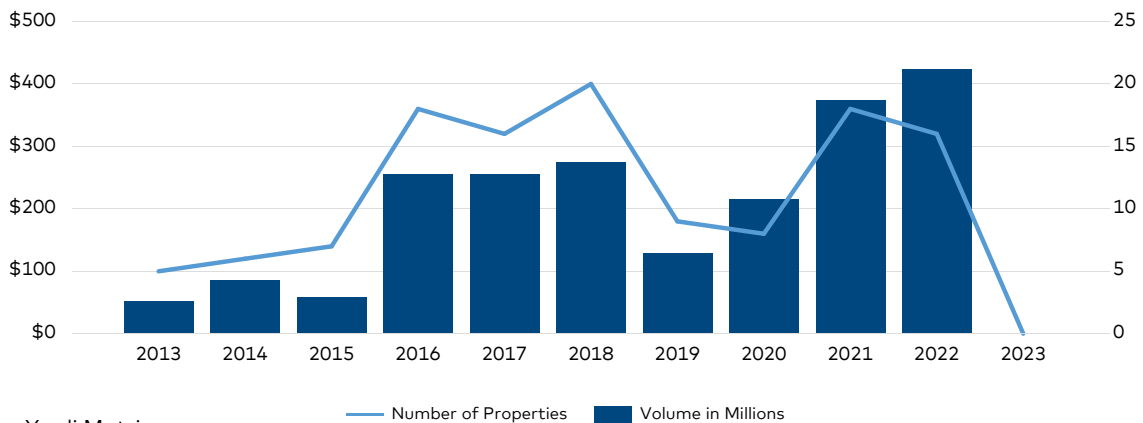
## TRANSACTIONS

- ▶ Knoxville's multifamily sales performed well in 2021 (\$375 million) and 2022 (\$422 million), marking consecutive all-time highs. However, the current economic landscape deterred investors from maintaining that high level of activity through the start of 2023, as no multifamily assets traded in the metro.
- ▶ Last year's sales composition was tilted slightly in favor of value-add plays, with nine of the 16 sales involving Renter-by-Necessity assets. Increased investor competition pushed the price

per unit up 22.5% year-over-year, to \$185,535. Meanwhile, the U.S. average per-unit price depreciated 3.0% compared with 2022 levels, at \$204,722 as of February.

- ▶ The largest transaction recorded in the last quarter of 2022 was Dominion Group's acquisition of Brendon Park from a private investor. The 324-unit property sold for \$56.7 million, or \$175,000 per unit, with aid from a \$43 million CMBS loan originated by Lument.

### Knoxville Sales Volume and Number of Properties Sold (as of February 2023)



Source: Yardi Matrix

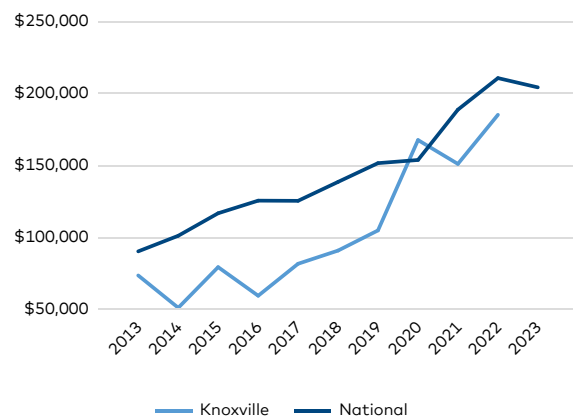
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Cedar Bluff	115
Northshore	87
Oakridge	56
Maryville	46
Middlebrook	15
Knoxville-West	3

Source: Yardi Matrix

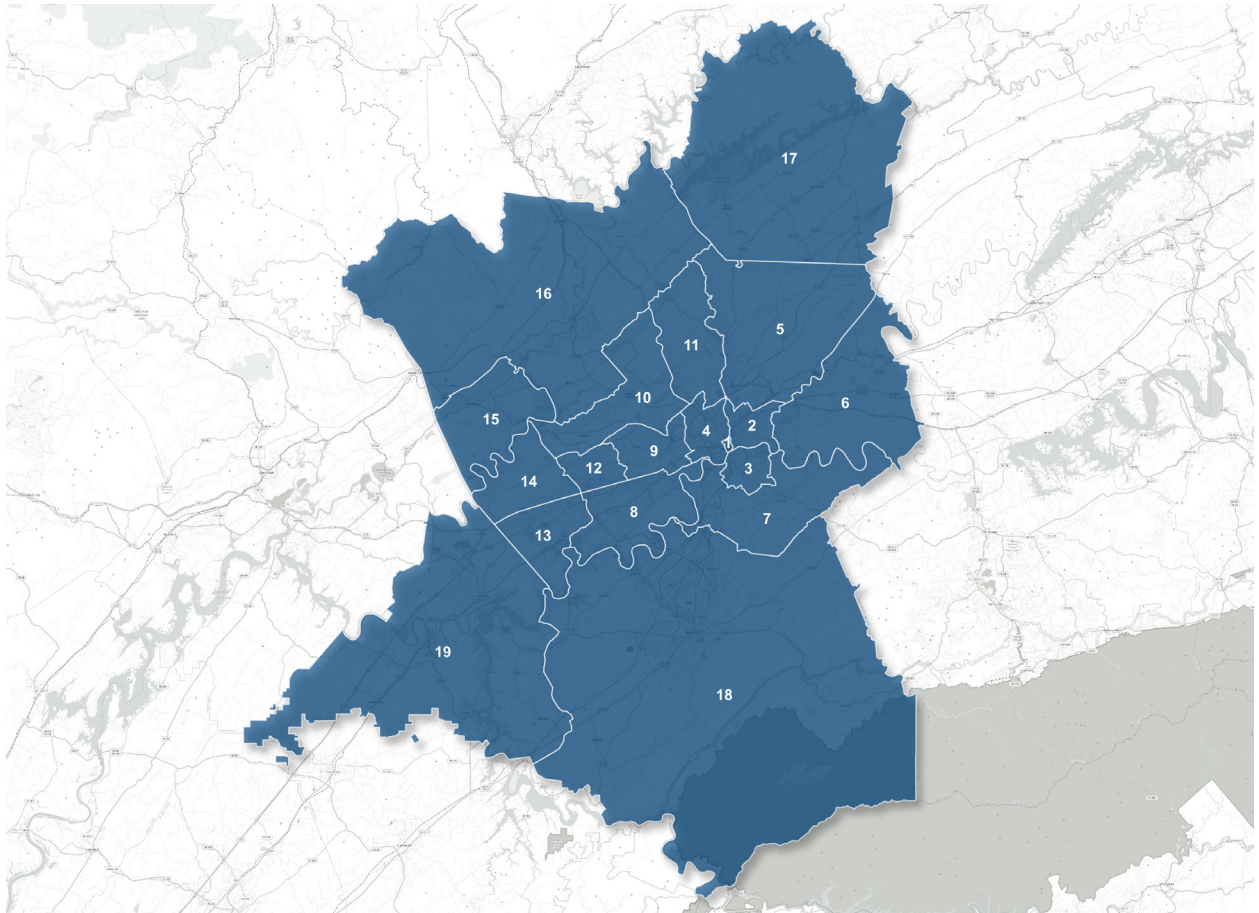
<sup>1</sup> From March 2022 to February 2023

### 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](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.





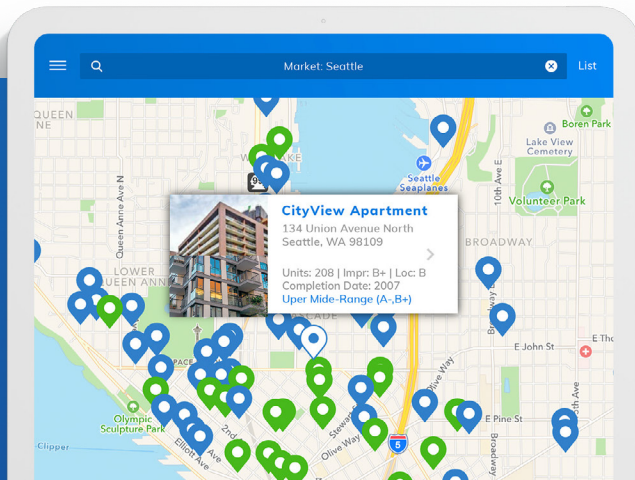
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- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
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